

JPRS-CEA-85-009

28 January 1985

# China Report

## ECONOMIC AFFAIRS

**FBIS**

FOREIGN BROADCAST INFORMATION SERVICE

#### NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

#### PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

28 January 1985

## CHINA REPORT ECONOMIC AFFAIRS

### CONTENTS

#### PEOPLE'S REPUBLIC OF CHINA

##### NATIONAL POLICY AND ISSUES

Beijing Answers Questions on Socialist Economy (Beijing Domestic Service, 4 Jan 85) .....	1
Commentary on 1984, Prospects for 1985 (CHINA DAILY, 2 Jan 85) .....	3
RENMIN RIBAO on Socialist Commodity Economy (Dong Fureng; RENMIN RIBAO, 24 Dec 84) .....	5
Speeches at Forum on Economic Administration (JINGJI RIBAO, 19 Dec 84) .....	9
Paper Views Dialectical Materialism, Economic Work (Gao Lu; JINGJI RIBAO, 17 Dec 84) .....	17
PRC Journal on Socialist Commodity Economy (Yu Zuyao; JINGJI YANJIU, No 11, 20 Nov 84) .....	24
Economic Journal Discusses 'Open-Door' Policy (Ji Chongwei; JINGJI YANJIU, No 11, 20 Nov 84) .....	39
Journal on Horizontal Economic Relations (Gao Shangquan; JINGJI YANJIU, No 11, 20 Nov 84) .....	56
JINGJI YANJIU on Planned Commodity Economy (Hua Sheng; JINGJI YANJIU, No 11, 20 Nov 84) .....	68
JINGJI YANJIU on Reform in Light Industry (Ji Long; JINGJI YANJIU, No 11, 20 Nov 84) .....	79
PRC Journal on Economic Reform, Commodity Economy (Yang Chengxun; JINGJI YANJIU, No 11, 20 Nov 84) .....	90

PRC Journal on Reform of Foreign Trade Structure (Zheng Tabin; JINGJI YANJIU, No 11, 20 Nov 84) .....	98
National Seminar on Economic Reform Held (Jiang Yingguang; RENMIN RIBAO, 24 Dec 84) .....	113
<b>Briefs</b>	
Economic Information Conference	117
Economic Law Meeting Concludes	117
Economic Breakthrough	117
<b>PROVINCIAL AFFAIRS</b>	
Heilongjiang Statistics on 1984 Economic Development (HEILONGJIANG RIBAO, 22 Dec 84) .....	118
<b>Briefs</b>	
Jilin Township Enterprises	120
Subsidies to Xizang	120
Ningxia Economic Development	120
Guangxi Inspection Tour	121
<b>ECONOMIC MANAGEMENT</b>	
State Council Approves Shenyang Reform Plan (XINHUA Domestic Service, 29 Dec 84) .....	122
<b>FINANCE AND BANKING</b>	
XINHUA Reviews Beijing Area News (XINHUA, 5 Jan 85) .....	123
How Capital Construction Can Inhibit Currency Circulation (Li Shourong; CAIMAO JINGJI, No 5, 11 May 84) .....	124
<b>INDUSTRY</b>	
Heilongjiang Industrial Production Increases Substantially (Heilongjiang Provincial Service, 9 Jan 85) .....	129
<b>Briefs</b>	
Metals Industry Development	130
Jilin Industrial Output Value	130
Shanghai Polyester Spinner	130
Xining Industrial Production	131
<b>CONSTRUCTION</b>	
Tianjin Vice Mayor on 1985 Development Plans (XINHUA, 9 Jan 85) .....	132
Construction for Truck Plant Begins in Beijing (XINHUA, 8 Jan 85) .....	134

## TRANSPORTATION

Shen Tu Addresses CAAC Planning Conference (Beijing Domestic Service, 30 Dec 84) .....	135
Conference Discusses Civil Aviation Improvements (Zhang Jinsheng; XINHUA Domestic Service, 25 Dec 84) ...	136
<b>Briefs</b>	
Jilin Highway Transport Enterprises	137
Heilongjiang Water Transportation	137
Highway Transport Plans	137
Military Railways Conversion	137
Zhicheng-Liuzhou Railroad	137

## CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

PRC Journal on Soviet-U.S. Economic Balance (Gao Shi; GUOJI WENTI YANJIU, No 4, 13 Oct 84) .....	138
Western European Economy Recovers in 1984 (Li Changjiu, Li Shuxun; XINHUA, 22 Dec 84) .....	179

## ABSTRACTS

### EXPORT INDUSTRIES

REDAI DILI <u>TROPICAL GEOGRAPHY</u> , No 3, 1984 .....	181
---	-----

## HONG KONG MEDIA ON CHINA

Discovery of Guangdong's Largest Gold Deposit (WEN WEI PO, 14 Sep 84) .....	182
--	-----

## NATIONAL POLICY AND ISSUES

### BEIJING ANSWERS QUESTIONS ON SOCIALIST ECONOMY

OW070901 Beijing Domestic Service in Mandarin 2115 GMT 4 Jan 85

[Excerpts] Listeners: This theoretical letterbox program answers the following few questions for you: Why should competition among enterprises still be permitted and encouraged under the socialist system? Why should state functionaries be prohibited from engaging in commerce?

Relations among socialist enterprises are primarily those of mutual cooperation and mutual support. However, these relations do not prevent competition. We should encourage proper competition among enterprises.

Generally speaking, competition is conducive to the promotion of enterprises, improvement of technologies, reduction of production costs, enhancement of product quality and economic results, strengthening of the vitality of enterprises, and development of our country's productivity.

Competition among socialist enterprises and that under capitalism are fundamentally different in purpose, method, and scope. In capitalist societies, the means of production are owned by private individuals, and capitalists have absolute power of control. Among enterprises in capitalist societies, there is no reason for any common interest, sincere cooperation, or mutual support. There are only relationships of life-and-death competition. To protect their own interest, enterprises engage in mutual deception and allow the strong to bully the weak, turning relations among people into relations based on money. But among socialist enterprises, the fundamental interests are consistent and there is room for sincere cooperation. The purpose of competition is to find out which enterprises can handle business management better and make greater contributions to the country's economic development and the enhancement of the people's livelihood. Only proper and reasonable methods of competition are permitted, illegal and unethical methods are not allowed. Competition among the various enterprises should not obstruct the creation of new socialist relations among the people.

Our party and government encourage and support people who engage in urban and rural commerce, but prohibit state functionaries from doing so.

First, this is decided by the function of state organizations and the tasks they undertake. State organizations have many functions. As our country enters into the period of large-scale economic construction, its most important function changes from being a political function into a management one. The main task of state functionaries is to manage the economy and coordinate, organize, and guide the development of the socialist commodity economy by means of policies, laws, and prices. This means that state functionaries should not directly or indirectly engage in commerce; they also cannot take part in concrete economic activities. There are many other things for state functionaries to do. If they do not do their part of work well and engage in commerce instead, they will deviate from the right way and embark on the wrong path and will depart from their proper work. Especially at the present time, when reform of urban economic structure is being carried out and we are carrying out such reform and looking for experience, it is more necessary for state functionaries to go deep into the frontline of reform to find out about the new situation and study new problems and to offer more suggestions and produce solutions. If the incumbent cadres among party and government personnel are allowed to engage in joint enterprises with the masses, the overall leadership of the party and government over economic work will be weakened and tendencies of competing for profits with the people will occur, thus affecting the role of party and government cadres in acting as the people's servants.

CSO: 4006/257

## NATIONAL POLICY AND ISSUES

### COMMENTARY ON 1984, PROSPECTS FOR 1985

HK030531 Beijing CHINA DAILY in English 2 Jan 85 p 4

[By CHINA DAILY commentator]

[Text] New Year's Day is traditionally a time for reviewing past accomplishments and mapping out tasks for the coming year.

For the Chinese people, 1984 ended on a jubilant note with the signing 10 days ago of a joint declaration with Britain on the Hong Kong issue. This historic event has been widely acclaimed as a model for the peaceful solution of problems between countries left over by history. The Chinese view it with pride and optimism, for it marked the end of a humiliating chapter and a new, promising step toward complete reunification. The bold and imaginative idea of "one nation, two systems" has been vindicated for the first time and is gaining world attention.

The year 1984 also saw continued, steady and substantial progress in China's overall economic reforms which started 6 years ago. A decisive step in this regard was the Third Plenary Session of the party's 12th Central Committee in October, which adopted the "Decision on Reform of the Economic Structure." The decision is a blueprint for building socialism with Chinese characteristics. Its far-reaching significance cannot be overestimated. It is a clarion call for the nation to proceed with urban economic reforms.

The past year saw the process of rural reforms picking up speed and developing in depth and breadth. Its impact on the economy as a whole and on social progress is beyond measure. Specialization has spread to more and more households, thus improving efficiency and raising productivity in farming, animal husbandry, forestry, fishing and other sideline productions. About a quarter of the rural work force has become redundant and has shifted to manufacturing, transport, trade and other services. So many among the rural population are becoming knowledgeable and well-off that the previous term "Chinese peasantry" is losing its relevance.

Success in the rural reforms has given people the experience and confidence to push ahead with reforms in other sectors of the national economy. It has also imparted a sense of urgency to proceed with the reforms. The introduction of a new taxation system and the proposed reform of the planning system are all designed to give more decision-making powers to urban enterprises. Meanwhile, responsibility systems and changes in the personnel and wage systems were tested to see how to better implement the principle of "From each according to his abilities, to each according to his work."

China declared another 14 coastal cities open to overseas investment in 1984. Policies were made more flexible and favorable to investors. Economic laws were enacted to protect their legitimate rights and interests. All this led to a big increase in foreign trade and to more joint ventures and other forms of economic cooperation.

Figures announced by the State Statistical Bureau say that in 1984, China's total industrial and agricultural output value will surpass 1,000 billion yuan for the first time in Chinese history. Moreover, nearly all the major economic targets set for 1985 will be met a year ahead of schedule.

According to the Chinese lunar calendar, 1985 is the year of the ox, a symbol of diligent work that will result in a bountiful harvest.

In the new year, the Chinese people will carry forward the economic reforms to revitalize the domestic economy and open wider to the outside world. They will develop the excellent situation in the rural areas and further improve the system of specialization, and test various forms for pooling their individual efforts. But the focus of the national effort will be on carrying out all-round urban economic reforms in a steady and systematic manner; 1985, therefore, will be an important year if China is to achieve initial success in 3 to 5 years.

The year 1985 will also see the drafting of the Seventh Five-Year Plan [word indistinct] which will hopefully pave the way for China's economic "take-off" in the next decade.

Meanwhile, the party rectification drive, launched a year ago, is progressing smoothly from the first to the second stage. This time, all party organizations at the prefectoral and county levels and nearly one-third of the party's membership will be involved. People can expect a fundamental improvement in the work style of the party.

Finally, there is the pressing strategic task of selecting, training and putting in place younger, more competent and better-educated leaders at all levels. Their talents, creativeness and pioneering spirit will contribute decisively to the success of the reforms and thus to the socialist modernization programme.

It is with these prospects in mind that we look to a brighter and more fruitful 1985.

CSO: 4006/257

NATIONAL POLICY AND ISSUES

RENMIN RIBAO ON SOCIALIST COMMODITY ECONOMY

HK020633 Beijing RENMIN RIBAO in Chinese 24 Dec 84 p 5

[Article by Dong Fureng [5516 6534 4356]: "The Life of Economic Organism Lies in Motion"]

[Text] As the saying goes: "Life lies in movement." There is much philosophy in this. Because, just as Engels said: The live organism "is the live unity of movement and balance." ("Dialectics of Nature," "Selected Works of Marx and Engels," Vol 3, p 563) The life of the live organism is thus extended and developed in movement and balance. If we apply the meaning of this saying to economy, we should also say that the life, vitality, and vigor of economy, which is a complicated organism, also lie in movement. Of course, balance should be maintained during such movement.

An economy can have vigor only when it is in motion. The natural economy, which develops slowly or is even in a state of stagnation for a long time, usually lacks vigor. The commodity economy is, in comparison, more vigorous. Competition in the market has put both the productive force and production relations into more rapid motion. In the rising period of capitalism, it awakens, as if by magic, the sleeping productive force. The socialist economy is not a natural economy, but a planned commodity economy. It is an organism which is based on socialized production and in which there is a complicated division of work and economic relations. Being a planned commodity economy, the socialist economy needs to be put in constant motion. It needs to overcome various drawbacks such as stagnation, rigidity, obstruction, separation, blockades, sticking to old ways, and closing the country to international intercourse, while at the same time, conscientiously and frequently maintaining balance with movement. The socialist economy will be more greatly invigorated and developed when it is in smooth motion and maintains balance. As a result of lacking experience in socialist construction and a scientific understanding of socialism, China's original economic structure and certain characteristics of the natural economy, counter to the nature of the socialist economy, which is a planned commodity economy which strangled the vitality of the socialist economy.

In the socialist commodity economy, commodities must be able to freely circulate. It is necessary to solve the contradiction between value and use value of commodities through circulation and market exchanges and under planned guidance and regulation and administrative management, and complete the movement from their producers to their consumers (including productive consumers and

individual consumers). The more rapidly, smoothly, and harmoniously this movement progresses, the more rapidly, smoothly, and harmoniously will commodity production be carried out. Under the original economic system, a large quantity of productive means could not circulate as commodities. The system of unified allocation and distribution of products often resulted in the dislocation of the production and needs of products, which were in short supply in certain places while being overstocked in other places. The system of handling economic affairs in accordance with the administrative system and regions, which set barriers between different departments or regions of the unified socialist economy, plus all kinds of protectionism and blockade, brought about obstruction, separation, and stagnation in commodity circulation.

In the socialist commodity economy, funds must be kept in uninterrupted motion and must be enabled to constantly change their forms (such as the form of productive funds, the form of commodity funds, and the form of monetary funds) so as to complete the circulation and to speed up capital turnover. Funds cannot increase in value unless they are combined with and affected by live labor. However, they cannot be combined with live labor unless they are in uninterrupted motion. In order to maintain their uninterrupted motion, funds must complete the change from one form to another smoothly. The movement of funds will be interrupted when it is obstructed in any stage of the circulation. Thus they will be unable to continue to play their roles. If the productive funds are not changed into commodity funds, they will be no better than the raw materials in storage, the unused workshops and equipment, and goods under processing which are not being processed. If commodity funds are not changed into monetary funds, they will no longer be better than a pile of surplus commodities which cannot be sold. If monetary funds are not changed into productive funds, they will be no better than a sum of frozen money, which cannot increase in value. There are two kinds of funds: fixed funds and floating funds. Today, when technology is developing quickly day by day, the fixed assets, which take the form of real materials, bear the characteristic of accelerating renewal. To renew the old-fashioned and outdated fixed assets in good time is an important channel in the realization of technical progress. Of course, it is also necessary to make effective use of fixed assets. The floating funds must circulate as fast as possible so that we can use the least possible floating funds to produce and sell the same quantity of commodities. Accelerating the circulation of funds is an important method for reducing the use of funds and raising the effectiveness of using funds. Under the original economic structure, the circulation of funds was not organized and controlled in accordance with the demands of the planned commodity economy. The unified allocation and distribution as well as the monopolized purchase and sale of a large number of products, the free use of funds, the circulation of commodities in accordance with administrative systems and regions and the excessive circulation links, the use of basic depreciation funds mainly in acquiring new fixed assets rather than renewing the original fixed assets and the lower depreciation rate, the neglect of the invisible wastage of the fixed assets, and the difficulties banks had in displaying their role in accelerating the motion of funds and regulating the economy naturally resulted in the slow turnover of capital and low efficiency in utilizing funds. For example, the average period for renewing fixed assets was as long as 27 years, and the turnover rate of the commercial circulating funds was less than twice a year.

In the socialist commodity economy, there must be the necessary flow of manpower so as to suit the changing needs of the society and to give full play to the role of manpower. Under the original system of handling economic affairs in accordance with administrative system and regions, the old labor system characterized by state assignment, and the old cadre management system, the necessary flow of manpower was obstructed. As a result, the enterprises were unable to retrench surplus labor or unsuitable manpower and to expand necessary staff. As there was not a rational flow of manpower, it was impossible to make the best possible use of manpower.

In the socialist commodity economy, the economic levers must display their roles in a flexible way. The economic levers, such as price, taxation, interest rate, and credit loans, are links between various economic interests concerned and between planning and marketing. They are also important means to regulate the economy. Only when they are brought into play in a flexible way and are used in a rational manner can they effectively and correctly regulate the economic interests and relations and thus effectively and correctly regulate the economy as a whole, and only thus can they enable the socialist economy to move smoothly and to maintain balance at all times while in motion. The original economic structure greatly weakened the role of the economic levers in flexibly regulating the economy. For example, the irrational price system and the excessively centralized control of prices made the prices unable to sensitively reflect social labor productivity and the changes in the relations between market supply and demand, thus weakening the role of prices in urging the economy on social labor and the distribution of social labor in accordance with the needs of the society.

In the socialist commodity economy, information must be passed on quickly, and the market feedback must be sensitive. Only thus can the production and sales of the enterprises better suit the changes of the social demands. Under the original economic structure, the role of feedback and regulation of the market was very weak, as the price could not sensitively reflect the changes of value and the relations between supply and demand and could not provide the enterprises and consumers with accurate information. The slow and inaccurate information often led to blind production, purchase, sale, and construction.

In the socialist commodity economy, the enterprises, which are cells of the economic organism, must be able to engage in flexible operation and to suit the complicated and changing needs of the society as quickly as possible. They must be relatively independent commodity producers and should "have their own will" ("Das Kapital") and, in compliance with the will of the society (expressed by the plans, policies, and principles of the state), act as the bearer of the relations between commodity and currency and the representatives and guardians of commodity. They must also treat each other and get in touch with each other in this way. For this reason, they must become relatively independent economic entities capable of carrying out independent management and assuming sole responsibility for their profits and losses and having the ability for self-reform and self-development. Flexible management is the secret of success for commodity producers in market competition. Under the original system characterized by state organizations engaging in direct management of enterprises, the enterprises became appendages of the administrative organs and were bound hand and foot. They were unable to carry out independent and flexible management and their vitality and vigor were constrained.

Judging from the above-mentioned points, in order to invigorate and vitalize the socialist economy, it is necessary to reform the economic structure, which retards the smooth movement of the socialist economy, obstructs the free circulation of commodities and the rational flow of manpower, interrupts the movement of capital and keeps the economic levers from playing their role of flexible regulation, and which impedes the transmission of information and restrains the flexible management of the enterprises, and to establish the socialist economic structure, which is full of vigor and vitality, in accordance with the inherent demands of the socialist economy, a planned commodity economy in nature. This economic structure must enable the socialist economy to move smoothly and to conscientiously maintain balance in movement as well. In other words, it must ensure the unity of the national economy as a whole and the diversity, flexibility, and initiative of the enterprises in production and operation. The 3d Plenary Session of the 12th CPC Central Committee adopted a "Decision of Reform of the Economic Structure" and thus drew up a blueprint for the overall reform of the economic structure. All the tasks put forth by the "Decision," such as expanding the decisionmaking power of the enterprises, reforming the planning system, giving play to the role of economic levers and market regulation, reforming the price system and price control system, reforming the financial and banking systems, drawing clear distinctions between the functions of the government and those of the enterprise, correctly giving play to the functions of government organizations in economic management, reforming the wage and labor systems, actively developing a diversified economy, and expanding external and internal economic and technical exchanges, are in conformity with the inherent demands of the socialist economy, which is a planned commodity economy in nature. They are conducive to the motion and development of the socialist planned commodity economy and will surely make the socialist economy full of vigor and vitality.

CSO: 4006/257

## NATIONAL POLICY AND ISSUES

### SPEECHES AT FORUM ON ECONOMIC ADMINISTRATION

HK070425 Beijing JINGJI RIBAO in Chinese 19 Dec 84 p 4

[**"Correctly Bring Into Play the Function of Government Organs in Managing the Economy"**--selected speeches from a forum sponsored by the JINGJI RIBAO Editorial Department on the question of the function of government organs to manage the economy--uppercase passages published in boldface]

[Text] A New Topia That Marxist Theory of State Is Faced With--by Jia Chunfeng [6328 2504 1496]

Recently the Commission for Guiding Party Rectification of the CPC Central Committee has issued "Opinions on the Basic Situation of the First Stage of Party Rectification and the Arrangement of the Second Stage of Party Rectification," which says that though we are already aware of the necessity to vigorously streamline some aspects of our party and government organs we have not yet done it. If we do not solve this problem as soon as possible through party rectification, this problem will certainly hinder our economic structural reform and make it impossible for us to thoroughly overcome bureaucracy. The problem raised here on the reform in party and government leading organizations, a reform required by the economic structural reform, is of great practical significance.

Beginning from the spring of 1982, we carried out a reform in our party and government leading organizations and scored certain achievements. However, the reform in our party and government leading organizations at that time was carried out before the economic structural reform began. The development of an all-round structural reform in the whole economy with the focus on the urban economy has raised a new question concerning our party and government organizations and the mode of their activities, namely, the question of what our socialist state organs should do in order to more satisfactorily lead and organize our economic construction. Concerning the function of the state, the Marxist theory on the state holds that all states have more or less the functions of managing economy and that what differs for different countries is the nature and degree of the management. It also holds that a proletarian country should not only lead the transformation of the economic relations of the whole society, but should also directly organize and lead systematic and large-scale economic and cultural construction. Undoubtedly, these are important. However, the question of how a socialist state effectively performs its functions in managing the economy is a question for further investigation in light of the practice of socialism in our times. Concerning this question, obviously, we should not

require the founders of Marxism to give concrete and detailed expositions under historical conditions in which there was no practice of a socialist state. This question can only be answered by the people of our times through applying Marxist scientific world outlook and methodology and developing new theory in the light of the practice of socialism.

Through summing up in a scientific manner both the positive and negative experiences in our country's socialist construction, the "Decision of the CPC Central Committee on Reform of the Economic Structure" has deepened and pushed forward the theory on this topic. The "Decision" has clarified the misunderstanding that confuses ownership by the whole people with state organs directly managing enterprises. In the light of what we have learned in practice, the "Decision" provides clear regulations on the questions of what our state organs must do and what our enterprises should do under the precondition of observing the management and plans of the state, when it defines the correct relations between the state and the enterprises owned by the whole people. Having expounded on separating government administration from enterprise management, the "Decision" deals with the question of how we are to correctly give play to the economic management functions of our government organs, and emphatically pointed out that separating government administration from enterprise management, streamlining government administration and decentralizing power is a profound reform in our socialist superstructure. When we have changed our system, we should also change the structure of our organizations and our thinking style. We should put an end to the long-standing practice of basic-level units and enterprises being passively ordered around by leading organs instead of the latter serving the former. We should eliminate the long-standing bureaucratic malpractices of duplication of organizations, overstaffing, failure to clearly define job duties and shifting of responsibility. By so doing, we will make our leading organs at all levels focus in all their work on serving the development of production, serving the basic-level units, serving enterprises, and providing service for the prosperity of the state and the well-being and happiness of our people. All these things have put forth new requirements, calling on us to satisfactorily build up our socialist political system and deeply reform our leadership organizations, system, and methods while carrying out economic structural reform. These requirements concern many aspects: For example: 1) What should the structure and layout of our leading organizations be and how many tiers should they have in order to establish a socialist economic system that has Chinese characteristics and is full of vitality and vigor? 2) We should develop concrete forms of the responsibility system that is to be implemented in our state organs and government departments. Establishing and perfecting the responsibility system is a basic principle for management. The problem is that we should find the concrete form so the responsibility system for different sectors, and different trades, departments, units and posts; the system that can give full play to people's initiative, enthusiasm, and creativeness and is conducive to making them satisfactorily perform the duties of their posts. 3) How should we improve our methods of leadership and activities? Solving the above questions and other relevant questions both in theory and in practice is aimed at making the operation of our state organs more effective, overcoming and reducing various kinds of bureaucratic malpractices, and achieving the best results in our work.

As our economic structure has changed, as commodity economy has developed, and as economic life has been invigorated, the structure and organization of our leadership and our leadership methods and style must correspondingly be improved. Making the cadres at all levels understand this will be conducive to heightening the awareness of our leading organs in carrying out reforms and to making our leadership methods scientific and modern.

Two Aims for Our State Organs in Administering the Economy--by Tao Haisu [7118 3189 4725]

If we probe into the functions of our state organs in managing the economy, we will see that this kind of administration is aimed at achieving two aims.

The first aim is to strike a macrobalance on the basis of invigorating our enterprises. In order to achieve this aim, our state organs should perform their functions of administration by information and economic supervision. This is in fact aimed at promoting the development of productive forces and does not differ in any way from the aim in a capitalist society. In the past, we overlooked the common functions and common administration aims between the organs of socialist states and capitalist state. This is actually shown in our lack of courage to justly and forcefully uphold developing productive forces and the practice of always overemphasizing the importance of ownership. The fundamental goal of economic structural reform is to develop socialist productive forces; therefore, we should vigorously stress the functions of the state organs in promoting the development of productive forces.

The second aim is to balance the relations between the interests of various sections of laboring people. This is a problem concerning relations of production and is different from that in a capitalist society. In a capitalist country, as for the question of which enterprises are provided with abundant funds, which enterprises are equipped with advanced equipment and which enterprises achieve high economic results, the state cannot interfere with because of the private ownership. However, we should make concrete analysis of these questions under socialist conditions. For example, some enterprises achieve higher economic results and earn higher income than others because they use advanced production lines though they are all enterprises owned by the state. However, this kind of income should not entirely belong to the enterprises and their staff members and workers as individuals, because it is not directly linked with the animate labor of these staff members and workers and because it is earned owing through the use of the advanced means of production of the state. These kinds of relations of interests should be readjusted by the state. The above-mentioned two aims are, in fact, the dual nature of the administration. The functions of our state organs in managing the economy are characterized by this dual nature.

Observe and Study the Functions of Government in a Three-dimensional Manner-- by Yang Baikiu [2799 4102 2247]

METHODS OF OBSERVING AND STUDYING THE FUNCTIONS OF GOVERNMENT.

In the past, our theoretical circles used a single-line method to observe and study the functions of government. This method, in fact, only discloses the nature and characteristics of the functions of our government in one aspect and therefore, to a great extent, fails to be all-round. In order to really disclose the functions of our government, we must observe and study them in a three-dimensional manner. The mistakes in our practice in the past were, to a

certain extent, caused by our failure to do so. Observing and studying government functions in a three-dimensional manner can be carried out from three angles 1) The scope of the influence of the functions of our government; 2) the nature of government functions; and 3) the method of giving play to government functions.

#### ADMINISTRATIVE FUNCTIONS OF A MODERN GOVERNMENT.

The extension of the concept "administration" consists, in a broad sense, of defending, ruling, adjudicating, handling, organizing, arranging, readjusting, directing, dealing with, guiding, assisting and serving. By government "administering" economy, we mean that the government is a large trust organized by our government and we also mean that the government coordinates various kinds of economic activities and relations or even that the government provides guidance, assistance, and service for the various kinds of economic activities. Our failure to carefully observe and study the methods of administration has also caused us to make theoretical and practical mistakes. For example, what kind of administration do we mean in saying that "the socialist state should exercise a vigorous administration over the economy?" For another example, what kind of administration do we mean in saying that "since World War II, the governments of many Western countries have strengthened their interference in and administration over the economy? We are not wrong in stressing the administration of our government, but we have made mistakes concerning our administrative methods. This may lead to mistakes concerning our economic relations.

#### THE "DECISION" POINTS OUT THE FUNCTIONS OF GOVERNMENT.

The "Decision" points out: Practical experience over the years shows the following to be the principal functions of government organs in managing the economy: They should formulate the strategy, plans, principles and policies for economic and social development; work out plans for the exploitation of natural resources, for technological transformation and for the development of intellectual resources and coordinate the development plans of localities, departments, or enterprises and the economic relations among them; arrange for the construction of key projects especially those in energy, transport, and the raw and semi-finished materials industries; collect and disseminate economic information, learn to use economic means of regulation; work out economic regulations and ordinances and supervise their execution; appoint and remove cadres within a prescribed scope; administer matters related to external economic and technological exchanges and cooperation, etc.

The "Decision" points out that these functions of government in administering the economy mean great progress compared to those in the past. How are we to fulfill this task? We are required to become clear about which kind or which kinds of administrative methods are to be applied to a certain field or department. The "Decision" also points out: "State legislative bodies must produce economic legislation faster, the courts should make greater efforts to try economic cases, the procuratorates should strengthen their work in dealing with economic crimes, and the judicial departments should offer active legal services for economic construction." On this basis, we should continue to study the

question of what should be governed by legislation and what should be governed by administrative means. Concerning legislation, we should clearly stipulate which legislation should be formulated by the NPC Standing Committee and which regulations should be formulated by administrative departments. We should also further clearly define the concrete content of administrative means and establish an administrative supervision system.

#### Seek Methods of Administration Through Practice--by Zhou Qifan [0710 1168 1124]

First, I want to cite an example. In Shanzhou County, Jiangsu Province, township and town enterprises basically play a major role. How is the Shanzhou County Government to administer its township and town enterprises? In order to support the development of townships and towns, the county government has mainly done the following three things: 1) At the period of initial development of township and town enterprises before the 1950's, in conducting business contacts with outside, all the enterprises used, in a unified manner, the invoices printed under the name of the county government; 2) all the enterprises have adopted the name "Shazhou County so-and-so factory" or even the name "Suzhou city so-and-so factory"; and 3) it has granted tax exemption to the enterprises. In the 5 years from 1978 to 1983, over 50 million yuan of taxes in all was exempted. At the same time, the county government has also provided the enterprises loans out of its financial funds to help them grasp the development related to energy, semifinished materials, and the development of intellectual resources. During this period, the county government only issued one document on problems related to township and town enterprises.

Of course, if necessary, the government should also conduct some forceful "interference" in township and town enterprises. For example, in order to solve the problem related to the shortage of caustic acid for the newly established glass plant, it forced a neighboring fertilizer plan to switch to producing caustic acid and thus achieved satisfactory results.

Therefore, it is impossible for us to set up a fixed pattern in theory for the relations between the government and the enterprises and thus stipulate how the government is to administer the economy and what the government is to administer. Our country's economic structural reform has just begun and as our various areas and departments each has its own characteristics of development, in searching for administration methods that are suited to each area or department, we should discover and sum up the successful experience of, and lessons from the failures in various areas and departments and thus seek, through practice, the methods for the government to administer the economy. However, in doing so, we should not stipulate a fixed pattern for all areas and departments. Our administration methods should be readjusted in the process of adapting them to the situation and should continue to change and develop as our economy develops.

#### Functions of Our Organs Should Be Readjustable--by Jin Guangtao [6855 6034 3447]

At present, human society is undergoing a revolution in science and technology. In order to make our organs and system more rapidly adaptable and sensitive to the situation of the rapid development of productive forces, when we set up

government organs, we should consider the readjustability of their functions. Now it is better to establish a readjustable organ than a rational organ with a unitary function. Our society is developing and changing and the change in our economic life is even quicker, but the organs that we have established are required to be relatively stable. If we want the organs we set up to meet the demands of the development of our society, we require the organs themselves to be capable of readjusting their own functions. In the past, an organ that we had set up could effectively operate for a relatively long time, however, this will not be the case now, nor in future society. The length of time in which an organ can effectively operate becomes increasingly short, therefore, our demand for the readjustability of our organs becomes increasingly exacting. If an organ and a kind of system fails to have the capability of self-readjustment, than even though it seems at the time when it is set up to be suited to the scale of the development of productive forces, it will not be able to adapt to the objective reality which is apt to and continues to change in modern times.

How can we imbue our organs with readjustability. According to systems science, it must consist of four parts that are mutually independent but are mutually linked through feedback. These four parts are the information organ, the decisionmaking organ, the executive organ and the supervision organ. They coordinate with and condition one another and thus fully perform their functions.

These four organs form an organic integrated entity. If we overlook the role of any of them, we will undermine the self-readjustment function of these organs.

#### Cities Should Be Responsible for Administration of Enterprises--by Wang Lingling [2769 3781 3781]

Government departments directly administering and managing enterprises will give rise to many problems: First, this practice not only fails to distinguish between the duties and responsibilities of government and enterprises and injures the initiative of enterprises, but is also apt to cause our responsible departments to become immersed in the administration of actual affairs and thus neglect and weaken the administration of trades. Second, it aggravates the division between areas and departments and is detrimental to professional cooperation and socialized mass production. Third, the frequent change in the relations of subordination not only makes the administration of our industries increasingly complicated and confused, but also hinders the development of our enterprises. Fourth, it is inconvenient for central ministries of industry and provincial, municipal and autonomous regional industrial departments to directly manage and administer enterprises that are often a great distance away from them. And fifth, it has artificially given rise to irrational, stratified relations between various enterprises.

The "Decision of the CPC Central Committee on Reform of the Economic Structure" approved by the 3d Plenary Session of the 12th CPC Central Committee clearly put forth the idea that the ownership of means of production can be appropriately separated from the power of management and that the ownership by the whole people of the means of production is shown in the form of state ownership; it does not

mean that the state's government departments at various levels should all directly manage and administer enterprises. This has laid a theoretical foundation for the view that government departments at various levels are allowed to refrain from directly managing and administering enterprises.

In Comrade Zhao Ziyang's "Report on the Sixth 5-Year Plan," he pointed out: "The responsibility for the administration of a large number of enterprises should be switched onto our cities." Therefore, with the exception of a few sectors such as railways, post and telecommunications, war industry and aviation, the management of which should be centralized because of their characteristics, in future, the central industrial ministries the provincial, municipal, and regional departments and bureaus and other government departments will on principle no longer directly administer and manage enterprises.

There are many advantages in cities administering industries: 1) It is conducive to reducing the tiers of administration, exercising the unified leadership of the party and government, and promptly discovering and solving the problems in our enterprises. 2) It is conducive to our enterprises organizing professional cooperation and combines in the light of the objective demands of the economic development. 3) It is conducive to the redistribution and better use of raw materials and energy and to overcoming environment pollution. In addition, the administration of enterprises by the cities where they are situated is conducive to exchanges between technological personnel of various enterprises; to making unified arrangement of the production in our enterprises and of the livelihood of their staff members and workers and thus giving play to the initiative of the staff members and workers; to bringing along the development of the economies in the economic zone around the cities and in other economic zones that are linked with the cities; and to giving play to the advantages of our industries, providing more support to agriculture, speeding up the pace of the modernization of our agriculture and gradually eliminating the disparity between urban and rural areas. When central industrial ministries and provincial, municipal, and regional departments and bureaus no longer directly administer and manage our enterprises, from the point of view of the structure of our government organs, we can close down, reduce the scale of, or merge some economic departments. Concerning their business, the government economic departments should mainly be in charge of major matters that have a bearing on the whole situation and perform the function of trade administration.

#### Major Goal of Administration Is To Develop Productive Forces--by Tan Jian [6223 0256]

Let us first deal with the questions related to the functions of the state. The functions of the state are not fixed and unchanged but change as the historical tasks of the state change. In the history of our country, there were few government organs at first, but later as society developed the number of the organs multiplied. In a feudal society, the functions of the state, in particular its functions in administering the economy, were greater than those in a slave society; those of a capitalist society were greater than those in a feudal society; and of course, those of a socialist society are greater than those of a

capitalist society. The nature of ownership in a socialist society differs from that in a capitalist society, however in administering socialized mass production, a socialist society can refer and carry on some of the functions of a capitalist state. This does not conflict with what Marx said about breaking the old state machinery. After the proletariat seizes the state power, the functions of the state will differ in different historical periods. During the socialist transformation period in our country, political means were mainly adopted. However, as the principal contradictions in the society have changed, the major goal of the administration of the state has switched into developing the productive force; therefore, we should switch into adopting the economic means that are suited to socialized mass production. Owing to various kinds of causes, we have failed to promptly realize this change.

Next, I am going to discuss the question related to the establishment of state organs. The establishment of our state's government organs is a matter related to the superstructure. It must first meet the needs of the economic structural reform. In the past, as we failed to have a clear goal, we set up and then closed down and divided up and then [word indistinct] quite a few departments-- still we could not solve the problems. In addition, it should also meet the demand of the four modernizations. In the past we exercised too strict a control over the economy and this practice in our economic organs should be eliminated. Furthermore, it should meet the demands of the new technological revolution. If we say that we want to meet the challenge of the new technological revolution, rising the work efficiency of our state organs is indispensable.

Now, I am going to discuss a few principles concerning scientific government administration: First, the principle of unified administration. In order to administer, the organ of administration must have authority; therefore, the administration should not be put in charge of several organs each of which gives a direction contradictory with that given by the others, and thus confuses those being administered. Second, the principle on the consistency between responsibility and power. One must have power to administer a matter and, of course, should shoulder the corresponding responsibility. However, the reverse is the case in some of our areas where those who administer do not have the power while those who have the power to do administer. Third, the principle of the division of labor between party and government. Party committees taking on all the work of the government is not a good method. In fact, when a department has carried out and implemented the party's policies, it should be regarded as having adhered to the party's leadership. And fourth, the principle concerning small and rational size and great efficiency of government organs. The key is to raise efficiency. We should make up our mind to close down redundant organs and to merge those we should merge. But we should not merge them mechanically by moving their desks together. On the contrary, we should switch the different functions which are merged into new functions. We should expand and strengthen the organs that must be strengthened. Such organs include the following: Information organs; brain trust organs (or advisory organs); supervision organs-- in the main economic supervision departments such as statistical, auditing, price, tax and banking departments; legislative and judiciary organs and scientific research and educational organs.

## NATIONAL POLICY AND ISSUES

### PAPER VIEWS DIALECTICAL MATERIALISM, ECONOMIC WORK

HK310855 Beijing JINGJI RIBAO in Chinese 17 Dec 84 p 3

[Article by Gao Lu [7559 6424]: "It Is Imperative to Adhere to the Dialectical Materialist Ideological Line in Economic Work"]

[Text] A number of Comrade Zhao Enlai's Works on economic work have been included in the "Selected Works of Zhou Enlai" Volume II. These important documents are not only historical records but also our ideological wealth. They show us Comrade Zhou Enlai's scientific approach of upholding the principle of seeking truth from facts, his high sense of awareness and firmness in upholding dialectical materialism, and his political courage to dare to hold firmly to the truth in economic work. It is precisely because of this that he made immortal contributions to building an independent and comprehensive economic system for our socialist country. History is developing, things are constantly changing, and understanding is also advancing. What we should adhere to today is precisely the dialectical materialist line of seeking truth from facts, which Comrade Zhou Enlai upheld.

#### In Drawing Our Plans, We Should Stress Seeking Truth From Facts

The planning of the state's economic life as a whole is the negation of the anarchy and blindness of social production. Practicing a planned economy is the objective demand of the socialist economy based on public ownership and one of the fundamental indications of the socialist economy being superior to the capitalist economy. The socialist planned economy can avoid the anarchy of production and cyclical crises characteristic of capitalist society and consciously ensure that production constantly meets the growing material and cultural needs of the people. However, certain conditions are needed to turn this possibility into a reality. Economic plans should proceed from actual conditions and be practical and realistic. This is the first and foremost condition required.

In the early days of the founding of the PRC and during the First 5-Year Plan period, our country was confronted with the important tasks of achieving a unity in financial and economic affairs and gradually establishing a centralized and unified national economic system: unifying national revenues and expenditures, unifying national materials control, and unifying national money control. Unification in itself calls for planning. At the beginning we recovered production in a planned way and then developed production in the same way and carried out

overall planned construction. In 1951 we began to work out the First 5-Year Plan for our national economy and beginning in 1953 we carried out large-scale planned construction throughout the country. By the end of 1955 we had smoothly carried out all work on the economic front with remarkable achievements and especially in 1955 we reaped a bumper harvest in agriculture. Since nature complied with man's wish, everyone intended to race against time. Hence, impetuosity was brewing secretly. At that time a struggle against right-deviationist thinking was being waged within the party. Therefore, in 1956 the central departments vied with one another in drawing up plans with excessively high targets and the investment plan for national capital construction was once proposed to be about 20 billion yuan. To counter this swelled-headedness and unrealistic impetuosity, Comrade Zhou Enlai penetratingly pointed out: "The projected figures in the plans worked out by the specialized meetings of various ministries are all big. Everybody is informed to be practical and realistic." ("Selected Works of Zhou Enlai," Vol II, p 191. Only the page numbers of the book will be given in the following passages if quoted.) "One must not arbitrarily propose anything or any additional speed which is beyond our actual possibilities and without good grounds. Otherwise, it will be dangerous." (p 190) At the 10 February plenary session of the State Council, in accordance with the "reduce a bit" principle put forth by Comrade Zhou Enlai, the planned targets worked out by the various departments were discussed anew. The planned targets which were beyond the actual possible supply of materials and disrupted the overall balance were slashed by a big margin and the investment in capital construction was reduced from the previous sum of 17 billion yuan at 14.7 billion yuan. Because the targets remained very high, in early April there was a sharp contradiction between the supply and demand of building materials and in some productive and capital construction units, construction workers had to be left idle and work stalled for lack of materials. Meanwhile, proposals for pouring in more investment were raised. In the face of this situation, what should be done? Zhou Enlai stressed once again: In working out plans, we must be practical and realistic and as far as key projects are concerned, we must undertake them in a fact-finding manner. Some projects without the necessary supply of materials have to be abandoned. In June, after summing up the opinions of such comrades as Bo Yibo, Zhou Enlai slashed the excessively high state budget by 5 percent and reduced the investment in capital construction to 14 billion yuan. At that time, with such a big figure, the rash advance had become a fact and it was not easy to hold it back any longer.

Comrade Zhou Enlai adhered to the dialectical materialist ideological line of seeking truth from facts in economic work. This was manifested not only in his adherence to the principle of seeking truth from facts and of suiting the task to one's capacity in drawing up plans but also in his adherence to approaching planning dialectically and his assertion that resolute efforts should be made to correct plans once they were found not commensurate with reality. As early as the very start of New China's planned construction and of its First 5-Year Plan, Comrade Zhou Enlai soberly pointed out: We "have to implement and revise" the general plan for the state's economic development "while formulating." (p 10) It was precisely based on this understanding that we managed to make repeated revisions of our annual plans as mentioned above. The experiences and lessons gained in practice helped us acquire a clearer understanding in this regard.

In his report delivered at the Second Plenary Session of the Eighth CPC Central Committee in November 1956 on the national economic plan for 1957, Zhou Enlai raised planning to the higher plane of the guidelines for economic construction and said: Planning "is advancing in the course of constantly discovering and correcting mistakes" and therefore, "our plans must not be immutable." (pp 233 and 235) What is the direction for our advance? What are the grounds for making revisions? All this depends naturally on whether or not our plans are suited to objective reality. Plans which are not suited to reality can and ought to be revised. The result of the implementation of the First 5-Year Plan indicated: The tasks completed in the plan for agricultural production were the revised targets while the overfulfillment of the targets in capital construction was the result of our faults [shi wu 1136 6137]. Had Comrades Zhou Enlai, Chen Yun, Bo Yibo, and others not revised and curtailed the annual plan for 1956, the proportion of development of the national economy as a whole would have seriously been disrupted and its balance upset.

Judging from the theory of knowledge, man's rational knowledge has a process and cannot be achieved at one stroke. As programs and assumptions based on people's understanding of the objective economic laws for economic activities, economic plans fall into the category of cognition and are therefore highly purposive. Since it is impossible for statistics to be absolutely accurate and for information concerning actual conditions to be all-embracing; and since ours is a country with a vast territory, where the economic and cultural development of various localities and departments is uneven, information is not highly responsive, diverse economic forms coexist and, in short, things are complicated, the economic sectors, in addition to the state sector of the economy, can only be regulated through our indirect knowledge of them and through economic levers. Even if our plans are quite realistic, still there are bound to be new developments. Therefore, we must not expect to "put everything in a uniform plan." Our plans can only be rough and elastic. "Practicing a 5-year plan or working out a plan for a period of 5 years' is, after all, normal. Attempting to put all economic activities on the planned course and to rely exclusively on administrative orders in fulfilling the plans will inevitably cause a separation of the guidelines for planning from objective reality and a serious dislocation between planning and reality. At the same time, we must not make a mystery of our plans and regard them as immutable. In accordance with dialectics, economic plans should be revised in the light of actual conditions.

It was precisely because our party persistently upheld the guiding ideology of proceeding from the reality in China, seeking truth from facts, and revising while implementing economic plans during the period of formulating and implementing the First 5-Year Plan that we managed to make great and remarkable achievements in the economic construction in that period.

#### Correctly Approach Balance in Planning

A planned economy should develop proportionately. The criterion to see whether or not it develops proportionately lies in whether or not a balance is achieved among the various sectors of the economy. The purpose of planned construction is to ensure that economic construction and production can develop at a high speed. The planned economy should observe the laws governing proportionate development and seek for a proportionate balance. How to approach and handle balance in planning is an important topic in macroeconomic work.

The rash advance that emerged in the first half of 1956 resulted in an imbalance in the supply and demand of the major means of production, such as steel products, and put a strain on the supply of commodities. What was highly commendable of Comrade Zhou Enlai was manifested in his ability to firmly grasp the fundamental crux of the problem--disproportions prevailed in the national economy as a whole, balance was hard to maintain in the overall situation, and danger was imminent--in the situation in which impetuosity was spreading and people were vying with one another in raising the quota in their plans. At the routine meeting held by the State Council on 10 April, in the light of the specific conditions at that time, Comrade Zhou Enlai reminded everybody to pay attention to achieving a balance in the national economy and pointed out: "We must fight to achieve a balance." Subsequently, the CPC Central Committee put forth the principle in economic construction of steadily forging ahead through overall balance. This correct policy was confirmed and preserved by the party's "Eighth National Congress."

We started our economic development with a poor foundation. In order to bring about an upswing in economic construction within a short space of time, it was undoubtedly correct to work out plans a bit aggressively and somewhat strain the balance in planning. Just as Comrade Chen Yun said: "However, strain should not be allowed to proceed to the extent of breaking the balance." ("Selected Works of Chen Yun"--1949-1956, p 241) There has long been a concept concerning balance, as if it meant a state of rest in philosophical terms. Stressing balance means indulging in metaphysics. Balance and a state of rest are in fact not one and the same thing. Instead of being mutually exclusive with motion or development, balance is precisely one of the characteristics of systematic [xi tong zhong 4762 4827 0022] motion. As Engels saw it, motion and balance are indivisible and motion means an effort to achieve a balance. While keeping different relations with other things, a thing preserves a balance in itself. The motion of contradiction between its internal factors generates the development of the thing itself on the one hand and maintains a systematic balance on the whole on the other hand, thus preserving the intrinsic quality of the thing. Dialectics discovers the universality of the motion, change, and development of things and it seeks a motion suited to man's needs and a healthy development, namely, a development where a thing is balanced on the whole, rather than advocating blind motion. Motion and development are the objective necessity while controlling the orientation and speed of motion and development is the manifestation of man's highly conscious dynamic role, which finds expressions, in economic work, in the proportionate distribution of social labor (including live and materialized labor) and the preservation of an overall balance in the social and economic life and the overall situation in production. This is the economic law shared commonly by all social formations. Under capitalism the social and economic life is unbalanced in character. The social balance in the production under capitalism is achieved in the course of "numerous accidental changes" by relying on huge waste and after-the-event regulation or belated efforts. Marx incisively pointed out: "In capitalist society, social reason always plays a role after the event and it is, therefore, possible and inevitable that great chaos will occur continuously." ("Collected Works of Marx and Engels," Vol 24, p 350) The proportionate development of the national economy in socialist society can be achieved using regulation by planning mechanism.

The economy without an overall balance is not a planned economy. "Constant, deliberately maintained proportion would, indeed, signify the existence of planning." ("Collected Works of Lenin," Vol 3, p 566) Being in proportion and keeping a balance are long-term, constant principles.

The twists and turns and the experiences both positive and negative gained in 1956 have enabled us to gradually set up a principle guiding our economic construction characterized by proportionate development and overall balance. The controversies that emerged subsequently on the "passive balance" and "active balance" and on the short-line [where demand exceeds supply] balance and long-line [where supply exceeds demand] balance were a further deepening in people's understanding. Through the complications of the 1958 "Great Leap Forward" and the "Great Cultural Revolution," we have today acquired a clearer understanding in this regard. That Comrade Zhou Enlai upheld overall balance in both thinking and practice should always become a model for us to learn from and a guideline for us to follow in our planning work.

#### A Philosophy for Combating Deviations--Upholding the Struggle on the Two Fronts

In economic work deviations may also occur both in one's understanding and sentiments. Strictly speaking, they cannot be settled by using the method of "ideological struggle." Ideological deviations should be opposed primarily with the method of positive education and elicitation. Even if there are really deviations to oppose, we should adhere to the struggle on the two fronts.

During the First Five-Year Plan period, the question of opposing deviations in economic work was first generated with the agricultural sector. The road of socialist transformation in agriculture was cooperativization. Beginning at the end of 1953, agricultural cooperatives had entered a state of development from the state of trial running and between the end of 1954 and January 1955, the number of cooperatives drastically increased within a short space of several months. To correct the phenomena in some regions in which people were over-hasty in pressing on with agricultural cooperativization and did the work rigidly, the central authorities promptly called for a shift to the stage of controlling the number of cooperatives and stressing their consolidation with emphasis on reorganization and consolidation. In the course of implementing the central circular, the error of oversimplifying the problem cropped up in agricultural cooperativization and some cooperatives were dissolved as a result. This naturally dampened the initiative of grassroots-level cadres and the masses who were highly keen on cooperativization. In the second half of 1955, a struggle against the right-deviationist thinking was waged within the party. The economic work for 1956 was started against this background of social thinking. The situation was fine and people were a bit conceited; conservatism was opposed everywhere and everyone was impatient for success. Hence, impetuosity emerged in the planning of the scope and speed of construction and production. The targets in the long-term, annual plan were set excessively high in general. Hence, a rash advance cropped up to a certain extent.

Noticing the suggestion of such a development in good time, Comrade Zhou Enlai pointed out, frankly and to the point: It is important to oppose right-deviationist conservatism and it is also good to carry out our work in full swing but we must be cautious and prudent: "Now there are some signs of impetuosity

and we must alert ourselves to this trend of development." (p 190) At a time when the whole party was combating the right-deviationist thinking, it needed the greatest political courage to propose combating impetuosity and to help people calm themselves, and it was all the more necessary to repeatedly stress the importance of combating impetuosity. At a State Council meeting, he proposed the struggle against Right-deviation and conservatism "not be carried out endlessly" and said that it was now time to combat rashly advancing. At a political bureau meeting, on behalf of the State Council, he briefed the Political Bureau on matters related to rashly advancing. In a relevant report submitted by the State Council to the NPC, he persistently wrote: Impetuosity and rashly advancing have become important problems which demand urgent solutions in our economic construction. We must combat both conservatism and rashly advancing. At that time some people worried that this assertion would stray from the ongoing struggle against right-deviationist thinking. He painstakingly explained: Now that a rash advance has become a fact, we must combat it. In other words, on the question of combating deviations, we should adopt an approach of seeking truth from facts and combat all deviations that have surfaced.

Deviations and combating deviations is a complex issue. Erroneous thinking may be manifested many ways on the same question. From the angle of the theory of knowledge, they can be summed up into two categories: One leans toward going too far, which finds expression in rashly advancing in economic work and the other leans toward not acting fully to one's capabilities, which finds expression in being conservative in economic work. Rashly advancing and conservatism are very likely to coexist simultaneously in logical terms. Things are more complex in reality. Therefore, we should proceed from actual conditions and make a concrete analysis. In dealing with a problem, two deviations may possibly exist simultaneously and it is also very likely that one deviation becomes an obstacle in a certain period. Which deviations should be combated depends entirely on the one which has interfered with the smooth progress of our work. Meanwhile, running from one extreme to another one is a frequent occurrence. The political change of Wang Ming from being a "leftist" deviationist during the Second Revolutionary Civil War to being a right-deviationist over the question of forming a united front to resist Japanese aggression was a good illustration. With the passage of time and the changed situation, the thinking and sentiments as well as the mental outlook of individuals will change and the ideological trend and mental outlook of the whole society will also change. If we confine ourselves to one deviation and regard it as the source of all obstructions, we are bound to commit errors. In its history, our party committed such errors and moreover, the errors were profound lessons for us. The second "leftist" deviation during the period of the Second Revolutionary Civil War took shape under the banner of combating right-deviation and the third "leftist" deviation represented by Wang Ming also emerged in the form of combating right-deviation. The endless struggle against right-deviation led to the gradual escalation of three successive "leftist" deviations. On the question of combating deviations, Comrade Zhou Enlai consistently adhered to the principle of combating all deviations that cropped up and not carrying out the struggle against a deviation endlessly, thus upholding both materialism and dialectics.

In the first 10-day period of June 1956, at a routine meeting of the State Council, he raised the slogan of "combating rashly advancing" in a clear-cut manner and at the same time, he pointed out: We must combat Right-deviationist conservatism. Impetuosity and rashly advancing have also cropped up and therefore, in this session of the NPC, a struggle will be waged on the two fronts, that is, we should combat both conservatism and rashly advancing. This proposal was adopted by the Third Session of the First NPC, which was held in the last 10-day period of the same month and termed "we should simultaneously oppose the tendency of impetuosity and rashly advancing while combating conservatism." At a Political Bureau meeting prior to this, the CPC Central Committee decided to check rashly advancing and to halt impetuosity and formulated the economic construction principle of combating both conservatism and rashly advancing and steadily forging ahead through overall balance. The party's "Eighth National Congress" adhered to this correct principle. On 20 June of the same year, RENMIN RIBAO published an editorial entitled "Combat Both Conservatism and Impetuosity," expounding the above-mentioned view aired by Comrade Zhou Enlai and approved by the CPC Central Committee. In the situation in which the struggle against conservative ideas was being drawn out too long, the main purpose of Comrade Zhou Enlai in proposing that a struggle be waged on the two fronts simultaneously was to combat rashly advancing and to put the combating of rashly advancing in a proper position.

There is a quantitative limit to the quality of a thing. If the limit is exceeded, a qualitative change will occur in the thing. To maintain the stability of a given quality, a struggle should be waged on the two fronts of "going too far" and "not acting fully to one's capabilities." To ensure the healthy development of a correct political orientation, it is necessary to adhere to the struggle on the two fronts of both "leftist" and right deviations. Such is the case with economic work. A struggle should be waged on the two fronts of conservatism and rashly advancing. It must be pointed out that what we mentioned above is no longer a struggle between ourselves and the enemy. The "struggle" in the meaning of class struggle is used here for phraseological purpose. Since things are different in quality, the methods of struggle should also be different. In doing economic work, we should make the establishing of the new the first consideration, that is, go on revising, working out plans, and opening up new prospects in work, and conduct positive education using specific examples, unify understanding through enlightenment, be united, and work hard with one heart for the success of socialist economic construction.

CSO: 4006/257

## NATIONAL POLICY AND ISSUES

### PRC JOURNAL ON SOCIALIST COMMODITY ECONOMY

HK070727 Beijing JINGJI YANJIU in Chinese No. 11, 20 Nov 84 pp 9-17

[Article by Yu Zuyao [0060 4371 1031], a worker of the Economics Research Institute of the China Academy of Social Science: "On Socialist Commodity Economy"]

[Text] Since Russia's October Revolution, the problem concerning the position and destiny of commodity and currency in a socialist system has always been a major theoretical and practical problem in socialist construction. The "Decision of the CPC Central Committee on Reform of the Economic Structure" approved by the 3d Plenary Session of the 12th CPC Central Committee clearly points out: The socialist economy is a "planned commodity economy based on public ownership." This scientific thesis correctly sums up the historical experience in socialist construction, answers the new questions that have cropped up in the practice of economic reform, clarifies the basic nature and major characteristics of the socialist economy for us and clearly points out the orientation for our economic structural reform.

#### The Development of Our Country's Economic System Will Inevitably Undergo the Process of the Transition From a Self-Sufficient and Semiself-Sufficient Economy to a Socialist Commodity Economy

Our country's socialist society has emerged from the womb of a semicolonial and semifeudal society instead of a developed capitalist society. Before liberation, a self-sufficient and semiself-sufficient economy existed in a widespread manner and a natural economy ruled over most of the areas of our country. The commodity economy was very underdeveloped. This was our country's basic national condition.

A natural economy is incompatible with socialism. The characteristic of a natural economy is: "Society is made up of a large number of economic units of the same type (patriarchal peasant families, primitive communes, and feudal manors), each of which is engaged in all kinds of economic work ranging from the exploitation of various kinds of raw materials to the manufacturing of final products from these materials for consumption." (Footnote 1) (Lenin: "Development of Capitalism in Russia," "Collected Works of Lenin," Vol 3, p 17, 1984 version of the People's Publishing House. All citations from "Collected Works of Lenin" are from this version) "A precondition for this

mode of production is the dispersion of land and other means of production. This mode of production, excludes the accumulation of the means of production, cooperation, the internal division of labor in a production process; excludes the rule and domination of society over nature; and excludes the free development of social productive forces. It can only be contained in the narrow boundary of production and society that has been given rise to by nature." (Footnote 2) (Marx: "Das Kapital," Vol 1, p 830, 1975 version of the People's Publishing House. The same version is cited throughout.)

In a natural economy, social production is divided up into countless small and all-contained self-sufficient units. This economy excludes the social division of labor and social cooperation in production processes. On the other hand, the material foundation on which socialism has been founded is socialized mass production which is characterized by developed social division of labor and intensive cooperation.

A natural economy stays in a rut, stands still, refuses to make progress, excludes technological advance and hinders the popularization, application, and development of science and technology; while socialism demands a continuous growth of production on the foundation of modern science and technology and opens up broad prospects for the progress of science and technology.

A natural economy excludes the proportionate distribution of social labor in the scope of the society and excludes exchanges and circulation among different economic units; while socialism demands that social labor be proportionately distributed in various sectors and in the production of various kinds of products and demands the widespread development of exchange and circulation among sectors, among trades, among areas and among enterprises.

A natural economy does not take into account cost, or consumption or pay attention to the calculation of profit or loss. It excludes the conservation of labor and the raising of economic results. On the other hand, in a socialist economy, all-round economic accounting work must be done and importance must be attached to economic results and to raising labor productivity.

A natural economy only pursues self-sufficiency and is satisfied with meeting the low-level demands of its economic units and their members. Socialism, however, regards as its impetus, the satisfaction of the continuously increasing material and cultural demands of every member of the society and provides unexhaustible sources for the continuous and steady growth of production.

Therefore, natural economy and socialist economic system are incompatible with each other. A socialist system cannot take the production mode of natural economy as its economic foundation.

Our country's national conditions dictate that our country's socialist system must be developed and perfected under the precondition of thoroughly breaking the natural economy. Only when the modes of production and exchange have broken the narrow boundaries of natural economy will we be able to develop

greater labor productivity, to ensure the satisfaction of the continuously growing demands of the people, and to promote the development of the productive forces at a greater speed than that of the old society. The quicker and the more thorough the process of the collapse of the natural economy is, the more consolidated, developed, and perfect the socialist system will be.

However, the natural economy will not thoroughly disintegrate as soon as the semicolonial and semifeudal society perishes and the public ownership of the means of production is established. A natural economy is the outcome of a backward productive force. Although the transformation of the relations of production is an objective condition for promoting the disintegration of the natural economy, the decisive factor for the integration of the natural economy is nothing but the nature and the level of development of productive forces. Only modern mechanized mass production can finally cause the self-sufficient and semiself-sufficient economies that have lasted for several thousand of years to disintegrate one by one. The manufacture and widespread use of machines has intensified social division of labor and developed the all-round social nature of production. On the one hand, division of labor and the socialization of production combines various kinds of useful labor into an integrated whole and thus causes the labor of every individual laborer to become a component part of total labor of the society and becomes social in nature; on the other hand, division of labor causes people to be fixed all their lives in a certain kind of profession and the one-sided and different nature of labor causes the labor of every individual to have specific and partial nature. When the productive forces have not been so well developed as to eliminate the contradiction between individual and partial labor and social labor, the commodity economy necessarily becomes the only mode of production and exchange that is suited to the socialized productive forces. Once the socialized commodity economy takes place and develops, it will use its unique economic and technological superiority to launch a strong offensive against the natural economy to force it to disintegrate, and infiltrate commodity and currency relations into all spheres of our national economy. Such an offensive is stronger than any simple commodity economy can launch. Therefore, in order to meet the requirements of the development of the modernization of our national economy, our country must undergo a process of the final disintegration of the natural economy and the vigorous development of a socialist commodity economy.

The thorough disintegration of the natural economy is not a short process that takes place in a flash. Lenin said: As in the times before the commodity economy, processing industry was combined with exploitation industry and the major sector of the latter industry was agriculture, the development of the commodity economy meant the separation one by one of the sectors of industry from those of agriculture. In a country where commodity economy is not much developed (or is entirely underdeveloped), almost all the population is agricultural population,... the residents who are engaged in agriculture process agricultural products on their own and there is almost no exchange or division of labor. Therefore, the development of the commodity economy means the separation of an increasingly larger part of the population from agriculture, or means, in other words, an increase in the industrial population and a

reduction in the agricultural population." (Footnote 3) (Lenin: "Development of Capitalism in Russia," "Collected Works of Lenin," Vol 3, pp 19-20) "The separation of processing industry from exploitation industry and the separation of manufacturing industry from agriculture has turned agriculture itself into an industry, in other words, into an economic sector that produces commodities. The specializing process that separates the various kinds of processing of products from one another and establishes an increasingly large number of production sectors has also taken place in agriculture. As a result, various kinds of increasingly specializing agricultural zones (and agricultural systems) have been set up. This has not only given rise to exchanges between agricultural and industrial products but also exchanges among various kinds of agricultural products." (Footnote 4) (Ibid, pp 18-19) Lenin's words point out for us the objective mark for the disintegration of the natural economy and the development of the commodity economy. If the proportion of the agricultural population is not reduced, if we do not carry out widespread social division of labor and specialization, if a structure of industries that conforms to the socialization of production, exchange and consumption does not take shape and if a broad and unified market is not established; it will be impossible to disintegrate the natural economy and the development of the socialist commodity economy will be restricted.

Under socialist conditions, achieving this profound reform in the mode of production and exchange does not need repeating the painful and prolonged process that capitalism underwent. However, this reform cannot be achieved in a short time. In our country, since the socialist transformation of private ownership was completed and since socialist industrialization began to develop, the self-sufficient and semiself-sufficient economy has begun to be gradually transformed into a socialist commodity economy, but this process has fell far short of completion.

The development of our country's socialist system will inevitably undergo two interrelated, interdependent, and mutually promoting processes: First, in the sphere of ownership, the transformation from private ownership to public ownership of the means of production; and then in the sphere of the mode of production and exchange, achieving the transformation from a self-sufficient and semiself-sufficient economy to a socialist commodity economy. The former process cannot replace the latter, while the latter process will not be completed or be spontaneously achieved when the former process is completed. Smoothly achieving the former process can promote and accelerate the development of the latter process. However, the achievement of the latter process is indispensable for the consolidation and perfection of the socialist system. Since the 3d Plenary Session of the 11th CPC Central Committee, the process of this transformation has been greatly accelerated.

#### **The Commodity Nature of the Socialist Economy Is an Inherent Part of Socialist Relations of Production and One of the Essential Characteristics of the System of Socialist Relations of Production**

Our country's socialist commodity economy emerged as socialist public ownership emerged and took a dominant position as socialist public ownership

established its dominant position. Therefore, the commodity nature of our socialist economy is not a remnant of the old society and is not a factor that is incompatible with socialist relations of production or that has been imposed on socialism from outside.

In Old China, the excessive economic exploitation of the peasants by the feudal landlord class and the small peasant private ownership of land fettered peasants to small pieces of land generation after generation and thus made the natural economy continue for a long period of several thousand years. In modern times, there was some development of the capitalist economy, but what took a dominant position was bureaucratic capitalism which was extremely parasitic and corrupt because it was feudal, comprador bourgeois, and monopolistic in nature and because it is combined with reactionary political power. As a result, the development of the commodity economy and the expansion of the market was seriously hindered. Therefore, abolishing feudalism and bureaucratic capitalism and then taking a step toward establishing the public ownership of the means of production has certainly cleared the way for the development of the commodity economy both in width and in depth.

The process of socialist public ownership replacing private ownership of the means of production cannot change the commodity nature of production, but can only change the private nature of commodity production and imbue commodity production with a new essential nature. The direct combination of ownership with labor on the basis of personal ownership and of individual labor is a characteristic of the simple commodity economy. After the simple commodity economy was transformed into capitalism, the separation of ownership from labor took place. This separation caused the law governing the ownership of commodity production to be transformed into its own direct opposite--the law of capitalist possession with the separation of ownership from labor as its content. As a result, exchange at equal value became a kind of mystic form that had nothing to do with its content. This is the most essential characteristic of capitalist commodity production which distinguishes it from other kinds of commodity production. It is also a major factor that determined the capitalist nature of commodity production. When socialist public ownership replaces capitalist private ownership, it eliminates the separation between ownership and labor and the contradiction between the form and content of exchange at equal value and realizes the combination of ownership and labor on the basis of combined labor. Therefore, this kind of combination is not a re-establishment of simple commodity production relations, but it is a combination of a higher grade, namely a combination between ownership and labor on the basis of joint labor and joint possession. However, under socialist conditions, it is still not possible to realize the transformation of the products of labor from a thing of duplicate nature containing both value and use value into a thing that contains use value only while the combination of ownership and labor is being restored. The reason for this is that with the present level of the development of the productive forces, depriving the bourgeoisie of their means of production and transforming small private ownership fails by far to make it possible to create the economic conditions that are indispensable for the realization of the combination of labor and ownership on the scale of the whole society and in the whole sphere of material

production, or to keep unified accounts, shoulder responsibility for profits and losses, and to distribute products in a unified manner in the sphere of the whole society. If we disregard the level of development of the productive forces, if we pursue a uniform form of the combination of labor and ownership, and if we artificially expand the scale of the unified accounting unit, we will only get the results of separating the links between the material interests of the laborers and the achievements of their labor, we will only give rise to egalitarianism in distribution and finally cause the actual separation of ownership and labor. Therefore, in a socialist system, the combination of labor and ownership that is suited to the level of the development of the productive forces is not uniform, but should be realized in diverse forms within different scopes, to different extents, and in different tiers. Under these conditions, there is no form of production and exchange other than the form of commodity and currency that can fully embody the combination of labor and ownership and that can thus be accepted by all people. Therefore, commodity exchange becomes the basic form of the exchange of labor between various collectives and therefore, the collectives of laborers that have realized in different tiers and scopes the combination between labor and ownership, and become commodity producers and commodity economic organizations that have their own special powers, rights, and interests and relative independence.

In this way, while realizing the restoration of the combination of ownership and labor, socialism has realized the dialectics of the development of commodity production. Through negating negation, the development of socialist commodity production has realized in a higher form the restoration of the law governing the ownership of commodity production. This is an essential characteristic that distinguishes the socialist economy from the capitalist economy and from the individual private economy, from the womb of which socialist economy emerged. It is also a major factor that determines that the commodity economy is an inherent part of the socialist economy.

The commodity economy is a system of social relations of production at a certain stage of the development of social production. Marx pointed out: "Exchange of products as commodities is a certain form of the exchange of labor and a certain form of the dependence of the labor of an individual on the labor of other people." (Footnote 5) (Marx: "Theory of Surplus Value," "Collected Works of Marx and Engels," Vol 26, part 3, p 139) He fully confirmed the idea that the relationships among people are merely covered by the shell of commodity. Lenin more clearly pointed out: "Commodity production is a kind of system of social relations," (Footnote 6) (Lenin: "Karl Marx," "Collective Works of Lenin," Vol 2, p 589) and is "a system of social relations of production in a certain historical and social mode." (Footnote 7) (Ibid) By system of social relations of production at a certain stage of the development of society and was not any other social phenomenon, and that second, it was not a specific aspect or a specific process of the relations of social production, but was the total sum of relations of production in terms of the whole process of production and reproduction and regarded commodity production as a process of incessant cyclical movement--an organic, integrated process including the production, distribution, exchange, and consumption of

commodities. The various aspects of the process of commodity production and reproduction are distinguished from one another by the respective special economic functions, are thus opposed to and linked with one another and condition one another. When the aim of social production is switched from being for consumption by producers themselves to being for exchange, commodity and currency relations will inevitably permeate all aspects of distribution, exchange, and consumption and give rise to a system of social relations of production. Commodity production without commodity exchange, distribution and consumption is unimaginable. Marx pointed out: "A certain kind of production determines a certain kind of consumption, distribution, and exchange and certain relations between these different factors." (Footnote 8) (Marx: "Introduction," "Collected Works of Marx and Engels," Vol 46, part 1, p 37) When production has a commodity nature, necessarily, consumption, distribution, and exchange will, by necessity, adopt the commodity form and be dominated and restricted by the law of commodity production. Third, when commodity production and other modes of social production exist at the same time, as the productive forces develop and social division of labor deepens, the modes of distribution, exchange, and production that are opposed to commodity production will inevitably be replaced by commodity production eventually.

Commodity production, in particular, socialized commodity production, will become a "light that shines over everything" because of its economic and technological ascendancy, will cause the natural economy and other ultra-economic dependent relations between people to disintegrate one by one and will give rise to the rule of commodity relations of production in the social economic mode. This is what is meant by commodity production as a system of social relations of production. In our understanding, we regard commodity production as a system of a sum of social relations of production. Negating the category of the commodity economy means, in fact, negating the idea that commodity production is "the system of social relations of production in a certain historical and social mode." Only by understanding the category of the commodity economy in this way can we thoroughly and correctly grasp the entire meaning of the "socialist commodity economy."

Under a socialist system, commodity and currency relations are not mere forms without content, nor are they restricted to a few links of the process of production and reproduction, but they are the fundamental social relations of production that occupy a dominant position. Neither the planned regulation of social labor nor the distribution of the means of production or the consistency of the basic interests of the people can negate this basic element of the socialist economy. The key to the problem is that the labor that is combined with ownership in different tiers is not directly social in nature, therefore, the objectively existing contradiction between the individual labor of a sector and social labor becomes the basic contradiction that determines the nature of the socialist economy.

The direct social nature of labor is a concept in contrast to partial and individual labor. According to Marx (Footnote 9) (Refer to "Collected Works of Marx and Engels," Vol 46 (part one), pp 118-129), it has the following characteristics: 1) It is expanded in a useful form for society according to

the proportion of social needs, therefore, it is, both in quality and in quantity, of the nature of society necessary labor. 2) In the production process, "from the very beginning, it is not specific labor; but is general labor," and "should become general labor before exchange takes place." (Ibid) On the other hand, indirect social labor can become general labor only through exchange. "It is exchange that first imbues labor with the nature of general labor." Therefore, the social nature of labor is "established after the event." (Ibid) 3) Direct social labor is reflected by its duration in time, while the product of labor is shown by pure use value. On the other hand, indirect social labor must take a course of twists and turns and be reflected as a thing of both use value and value through exchange. 4) The distribution of the time of direct social labor in various sectors is readjusted according to people's needs. On the other hand, under the conditions whereby only through exchange can the social nature of labor can only be shown through exchange, society must give play to the regulatory functions of the market mechanism and economic levers. 5) Under the condition whereby labor has direct social nature, "the exchange of products must by no means be the medium for an individual to take part in production in general," and "an individual does not enjoy products or take part in consumption through the medium of the exchange of mutually independent labor or of the exchange of labor products." (Ibid) Under the conditions whereby the social nature of labor can only be shown through exchange, exchange plays a restricting role that cannot be neglected by people taking part in production, distribution, and consumption. 6) The precondition for the labor of a producer to have the nature of general labor from the very beginning of the production process is that the difference between partial and individual labor and socially necessary labor no longer exists. "In this case, the division of labor that the exchange of exchange value inevitably gives rise to no longer exists. What is established in its stead, is an organization of labor which causes individuals to take part in common consumption." (Ibid) From this we can see that as long as social division of labor and the contradiction between individual labor and social labor caused by this division of labor continue to exist, neither the labor of an individual laborer nor the labor of a collective of laborers has direct social nature even though the public ownership of the means of production has been established.

If we regard regulation by mandatory plans, the unified allocation of the means of production, and monopoly in the sale and purchase of the means of consumption as proof of the direct social nature of labor, then we negate the necessity of exchange, negate the fact that concrete labor must undergo exchange in order to return to the condition of general abstract labor, negate value and exchange at equal value, negate the function of currency as a general equivalent and thus negate the necessity of products taking a "dangerous jumping course" in order to realize their value. As a result, we will inevitably deny the objectively existing difference between skilled and unskilled labor, between complex and simple labor, and between effective and noneffective labor. As a result, our distribution and consumption is separated from the actual economic results of production and circulation, individuals "eat out of the same big pot" provided by enterprises, and enterprises "eat out of the same big pot" provided by the state.

The execution of a planned economy in socialism is a manifestation of the superiority of the socialist system. However, the superiority of a planned economy does not mean that it has eliminated the contradiction between individual labor and social labor that is inherent in a commodity economy, but means that it is able to consciously utilize this contradiction, harmonize the relations between all the parties of the contradiction, pursue what is favorable, avoid what is harmful, and promote the advance of science and technology and the development of productive forces. A plan itself is only a necessary method or means to readjust the contradiction in a socialist commodity economy. What plans regulate is the relations between various sectors of socialist commodity economy. The function of regulation by plans is to make all-round arrangement to give consideration to the interests of all commodity producers and thus make each of them perform their functions and give play to their strong points in order to promote the highly efficient operation of the socialist economy. Therefore, it is inevitable that all methods of regulation by planning must operate in accordance with the requirements of the law of value. They cannot reject the market and market mechanism.

The market and the market mechanism are operation mechanisms for all commodity economies. In commodity economies at different stages in the development of society, the role and consequence of the market and the market mechanism not only directly depend on the objective economic conditions concerned, but are determined by the special essential nature of the market and the market mechanism. Since we admit that the socialist commodity economy differs in essence from the capitalist commodity economy, we have no reason to regard the market and market mechanism in a socialist commodity economy as being equivalent to those in a capitalist one. Therefore, it is not only necessary but also entirely possible for the state to effectively utilize the market and the market mechanism in performing its function of regulating the economy.

#### In Adapting Itself to the Nature of the Socialized Productive Forces, Socialized Commodity Economy Will Inevitably Tend to Deepen and Develop Both in Quality and Quantity

Socialist commodity economy is in the ascendant. Contrary to traditional views, the socialist commodity economy does not begin to perish, but will develop day by day; and we do not hold that it will perish in quality and develop in quantity, but we hold that it will tend to develop and deepen both in quantity and quality. This is an objective and inevitable trend and is determined by the law that relations of production must be suited to the nature of productive forces.

Marx pointed out: "No mode of society will ever perish before all the productive forces that it can contain are given play to; nor will a new and higher form of relations of production ever emerge before the material conditions for its existence become ripe in the womb of the previous society." (Footnote 10) (Marx: "Introduction to 'Critique of Political Economy',", "Collected Works of Marx and Engels," Vol 2, p 83) This fundamental principle of historical Marxism expounded by Marx is applicable not only to the transformation of ownership, but also to the commodity and currency relation as a

social relation of production. The productive forces determine the nature, form, and structure of the relations of production. As people cannot select their productive forces at will, they also cannot select their mode of production and exchange at will. The mode of production and exchange cannot lag behind the productive forces for a long time, nor can it transcend them.

The nature of commodity and currency relations is determined by the nature of ownership, but in the process of the transformation of the relations of production, it maintains a certain degree of relative independence from a certain form of ownership. In the prolonged history of the human race, any kind of ownership is temporary from a historical point of view, but the commodity and currency relations have continued to exist for several thousand years. Commodity and currency relations are characterized by their relative stability and continuity.

The cause of the stubborn vitality of commodity and currency relations is that they are able to adapt themselves to the nature and the trend of development of socialized productive forces. Due to the fact that in these relations, the principle of exchange at equal value is implemented, these relations can appropriately readjust the contradictions between the interests of various people and can promote, in the light of the demand of socialization, the development of professional cooperation and of various kinds of economic combines. These relations have cleared the obstacles that a natural economy sets to the development of productive forces, opened up a vast market, and provided a tremendously great stimulus for the development of production and possibility for almost boundless growth of production. As the principle of selecting the good is implemented, competition brings heavy pressure on and imbues great vitality to production and management, and makes people continuously improve their administration and management, pay attention to developing intellectual resources, and promote the advance of science and technology. These relations have given rise to the emergence of banks, trusts, and share companies and have thus provided appropriate organizational forms for the socialist economy. They have given rise to the market mechanism and economic levers such as prices, profits, interests, and dividends and taxation and thus provided indispensable mechanisms for the effective operation of socialized mass production and created diversified and flexible means of regulation for proportionate distribution of social labor. In present day society, the level of the socialization of production is already unprecedently high, the social division of labor is even more intensive, the number of sectors and trades is increasing day by day, the varieties of products are too many to list, and the varieties and designs of products are changing with each passing day. Under such conditions, it is unconceivable to ensure the efficiency, vigor, and vitality of the operation of our economy, if we discard the commodity and currency relations and the market mechanism that is inherent to it and if we rely only on one mandatory plan to direct all the production, supply, and sales of hundreds of thousands of enterprises.

The transformation from a self-sufficient and semiself-sufficient economy to a developed commodity economy and the transformation from a commodity economy to a noncommodity economy (the withering away of commodities) are two different

processes that are linked with each other, but are not allowed to be confused with each other. The failure to complete the former transformation will make it impossible to promote the realization of the latter process; the realization of the latter process must be based on the precondition of the completion of the former process. However, the day when the former process is completed is by no means the time for the beginning of the latter transformation; while the time when a natural economy is thoroughly disintegrates is not the day when commodities begin to wither away. First, this is because once a commodity economy has replaced the natural economy, it must undergo a period of development and prosperity. After new relations of production that are suited to the nature of the productive forces has been established, they will undergo a period of relative stability. Stabilizing the socialist commodity economy is precisely a demand of the development of the productive forces. Second, the conditions needed for the withering away of a commodity economy are much more complicated and arduous than the conditions needed for the disintegration of a natural economy. As long as the development of the productive forces fails to enable the realization of the combination of labor and ownership on the scale of the whole society or to enable the implementation of unified accounting and unified distribution, and as long as the division of labor that forces people to slavishly obey it continues to exist, it is impossible to eliminate the contradiction between individual labor and social labor and the commodity economy will not wither away. Obviously the disintegration of the natural economy alone cannot provide these economic conditions. When Marx talked about the withering away of commodities, he pointed out: "This needs a certain material foundation or a series of material conditions and these conditions themselves are the natural consequence of the prolonged and painful development of history." (Footnote 11) (Marx: "Das Kapital," Vol 1, p 97)

The objective process of the development of our socialist commodity economy has proved that the so-called "quality of being a product" or "product economy" is not an inherent internal quality of a socialist economy, but is an external factor that traditional concepts and the old economic system has forced on it. Since the 3d Plenary Session of the 11th CPC Central Committee, as we have implemented the policy of enlivening the economy at home, the socialist commodity economy is casting off the fetters of traditional prejudice and of the old economic system and is developing according to its own inherent law. This has not only been shown in the increase in the quantities of commodities and in the commodity rate, but has also been outstandingly shown in the continuing expansion of the scope of commodity and currency relations: The extension from being the form of the external links between the two kinds of public ownership to turning all the various internal relations inside the various kinds of the economies of public ownership and inside the state-run economy into an all-round commodity relation, and the mushrooming of various kinds of economic combines of public ownership; the development from regarding the products which are the outcome of production processes, as commodities to regarding means of production which is treated as objects of possession, as commodities; the extension from the spheres of production and exchange to the spheres of distribution and consumption; the extension from the sphere of the production of means of consumption to that of

the production of means of production that were allocated in a centralized manner for a long time; and the extension from the sectors of the production of material means to the sectors of science, technology, culture, education, information, labor services, and war industry. The deepening of the commodity and currency relations in turn gives rise to the diversification of the forms of the commodity and currency relations. As a result, the system of state monopoly over the sales and purchases of goods, the system of the state monopolizing the purchasing of and acting as sole agent for the selling of goods and the system of the state monopolizing the purchasing and allocating of goods have already been broken. All the above marks the fact that the development of the socialist commodity economy in our country has begun to enter a new stage of development. This objective process has proved that our socialist commodity economy is developing in the direction of prosperity instead of beginning to "wither away."

#### Act in Accordance With the Requirements of the Socialist Commodity Economy and the Law Governing It and Reform Our Economic Structure in an All-Round Manner

The original economic structure of our country has already been proven unable to satisfy the demands of the four modernizations and become an obstacle to the development of our productive forces. Reforming our economic structure in an all-round, systematic, and step-by-step manner and establishing a socialist economic structure with Chinese characteristics is an urgent task facing us.

The kind of economic structure to be established cannot be chosen by people at will. In reforming our economic structure, we are faced with two alternatives: We should either "further perfect" the existing structure in accordance with the so-called mode of "product economy" or follow the trend of the development of the productive forces, act in accordance with the requirements of the socialist commodity economy and the law governing it and reform our economic structure in an all-round manner.

According to the people who uphold "product economy," a so-called "product economy" is an economy with communist factors which are characterized by the withering away of commodity production and the disappearance of commodity nature in labor products; production being carried out in accordance with mandatory plans of the state and the law of value no longer playing its role of regulation; and products being allocated and distributed in a centralized manner and exchange and circulation no longer being necessary processes of reproduction. Our historical experiences have already proved that it is not feasible to "perfect" the original structure in accordance with the mode of "product economy."

First, like the "theory on the withering away of commodities in socialism," the "theory of product economy" holds that the mode of production and exchange can transcend the development of productive forces. This view runs counter to the law that relations of production must be suited to the nature of the productive forces. Concerning the method of the exchange of labor between various people, if we disregard the level of the development of our productive

forces, and if we artificially substitute products for commodities, we will certainly injure and distort the socialist nature of our relations of production, we will surely encroach upon the material interests of our laborers in collectives or as individuals, we will find it difficult to eliminate egalitarianism and the "communist wind" and the natural economy will emerge, again in a new form. From the above we can see that there is no essential difference between the view that upholds the "perfection" of the economic structure in accordance with the mode of "product economy" and the view that upholds a "poor transition" of ownership.

Second, "perfecting" the original economic structure in accordance with the mode of the so-called "product economy" is not only unable to eliminate the malpractices of the original structure, but, on the contrary, will only strengthen and develop the factors of natural economy in the original structure and thus turn our country's economic structure finally into a closed and rigid natural economy.

The "theory of the product economy" is in essence a refurbished version of the "theory of the natural economy." It regards socialized mass production as being equivalent to small production. It confuses the division of labor in society with the division of labor in an enterprise. It distorts planned economy and regards it as a feudal patriarchal natural economy, denies independent processes of exchange, and substitutes allocation and distribution of actual products for circulation of commodities. It does not uphold exchange at equal value and negates the necessity of giving all-round consideration to the relations between various parties, such as the state, collectives, and individuals. It attaches no importance to economic results and negates the role of the law of value in regulating production. It attaches importance to administrative orders and negates economic levers and market mechanism. In fact, the "theory of the product economy" is a "theory of the natural economy" that regards material economic relations as ideal ones.

Our country's original economic structure has precisely been established on the basis of the "theory of the product economy." Fundamentally, this mode of economic structure is deeply marked with the brand of the natural economy. It has set countless obstacles to the development of social division of labor and made it impossible for various departments, areas, and trades to give play to their favorable economic and technological factors, to develop their strong points, avoid their weak points, and to raise the economic results of the whole society. It has divided up our socialized economic body into countless "large and complete" and "small and complete" economic units and thus given rise to the situation of "a product being produced by many units while a unit produces many kinds of products." This closed economic structure has caused a tremendously great waste of resources. This kind of structure runs counter to the inherent nature of socialized productive forces, regards enterprises as subsidiaries to the government organs at various levels, negates that enterprises should have their position, rights and interests as relatively independent commodity producers and erroneously regards the organic entity of our national economy which relies on exchange to link its various parts as one factory, in which the state directly manages the supply, production, and sales

of the enterprises, and manages the personnel, financial, and material resources of the enterprises and the operation of the economy is only allowed to obey the orders from the central responsible departments. This kind of structure substitutes distribution for exchange and allocation for circulation, regards currency as a mere means of calculation and thus causes products to be unmarketable, production to be out of line with sales, and supply be out of line with demand. As a result, the phenomenon of "good news in the industrial sector, worries in the commercial sector, products stockpiled because of their unmarketability, and nominal revenues for our finance" have been repeated year after year. This structure negates the function of the socialist market mechanism. Its rigid price system, in particular, has given rise to a lopsided structure of industries and a prolonged dislocation between supply and demand and a prolonged shortage of supply of materials and goods. In the field of distribution, this system has practiced the egalitarianism of "eating out of the same big pot," and thus caused the material interests of individuals to be separated from the economic results of production and management, and responsibility, power, and interests to be separated from one another. Therefore, under this kind of structure, it is impossible for various aspects of the processes of production and reproduction to be freed from a strong tincture of natural economy. This is precisely the reason why we are going to carry out an all-round economic structural reform. Obviously, if we act in accordance with the "theory of the product economy," it is not only unnecessary to carry out an all-round and systematic reform in the original structure, but is, on the contrary, necessary to strengthen this kind of structure which has caused our economic life to lack vigor and vitality.

Therefore, the only feasible choice in conducting reform of our economic structure is precisely to conform to the demands for the development of our productive forces, regarding as a basic idea that our socialist economy is a planned commodity economy, an all-round reform of the original structure and set up a socialist economic structure which is able to promote the development of our productive force and is full of vigor and vitality.

Starting from this basic idea, we should turn the uniformed economic structure into the economic structure that takes the economic sector owned by the whole people as the leading sector, consists of diversified economic forms with the sector of public ownership occupying a dominant position and consists of diversified ways of management. In accordance with the principles of voluntary participation and mutual benefit and that of exchange at equal value, we have extensively developed various forms of economic combination.

Starting from this basic idea, we shall conduct reform in the over-centralized system of policy decision, and properly draw a clear demarcation line between the state's economic administrative function and the enterprises' rights in their management and administration, and distinguish between the ownership and the rights of management in the economic sector owned by the whole people. We shall grant our enterprises the position as relatively independent economic entities and as commodity producers that have their own decision making powers and assume sole responsibility for their profits and losses, strengthen the vigor of our enterprises, and give full play to the initiative and creativeness of our laborers.

Starting from this basic idea, we shall conduct reform of our mandatory planning system, consciously apply the law of value, reduce the scope of mandatory planning, and enlarge the scope of guidance planning and that of the regulation by market mechanism. We shall set up a planning system which is both unified and flexible in nature, administer satisfactorily big aspects and let go and enliven small aspects.

Starting from this basic idea, we shall establish and perfect an entirely satisfactory planning regulation system, shall change the method relying merely on administrative means and orders in carrying out planned management and give full play to the positive role of the market mechanism and economic levers such as prices, taxes, and credits. At present, the irrational price system has seriously impeded the reform of the planning, finance, commerce, and foreign trade systems and has hindered the implementation of the economic responsibility system and economic accounting. Conducting reform of the irrational structure and price system has already become the key to the reform of our economic system. Now, it is not only necessary but also possible to conduct an all-round reform of our price system and flexibly decentralize our prices.

Starting from this basic idea, we shall set up various forms of the economic responsibility system, combine responsibilities, rights, and interests, combine the interests of the state, collective, and individual, and combine the personal interests of staff and workers and the achievements of their labor.

Starting from this basic idea, we shall separate the duties of our government from those of enterprises and properly give play to the state functions in administering our economy. We shall give full play to the role of our cities as economic centers and gradually set up open and well interconnected economic zones with our cities, particularly large and medium-sized cities as bases.

Only by so doing, can we speed up the four modernizations and promote the prosperity and development of our socialist commodity economy. Under the guidance of the programmatic document on the reform of our economic system which was approved by the 3d Plenary Session of the 12th CPC Central Committee, the reform of our country's economic system will certainly bring about plentiful and substantial economic results.

CSO: 4006/252

## NATIONAL POLICY AND ISSUES

### ECONOMIC JOURNAL DISCUSSES 'OPEN-DOOR' POLICY

HK030601 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No. 11, 20 Nov 84 pp 34-42

[Article by Ji Chongwei [1323 1504 1218] of the Economic Research Center under the State Council: "Theory and Practice of China's Policy of Opening to the Outside World"--written on 28 Oct 84]

[Text] I. The Basis on Which China Practices the Policy of Opening to the Outside World

Our policy of opening to the outside world, put forward in accordance with the fundamental task of developing the socialist productive forces in our country, is entirely different from the so-called "open-door policy" forced on us by the imperialists more than a century ago.

The development of economy, science, technology and culture in the modern world is turning countries the world over into one entity from which no country can isolate itself. More than a century ago, Marx and Engels pointed out in "Manifesto of the Communist Party": "The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country.... In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. And, as in material, so also in intellectual production." (Footnote 1) (Marx and Engels: "Manifesto of the Communist Party," "Selected Works of Marx and Engels," Vol 1, pp 254-255) Marx's expositions on the international division of labor and international trade constitute the theoretical basis of the policy of opening to the outside world of socialist countries.

With the development of world history over the last century or more, particularly with the advancement of communications and telecommunications, the distance in terms of space and time between different parts of the world has been greatly shortened and the world has become much smaller. International contacts, exchanges and cooperation in the economic, scientific, and technological fields are becoming more and more frequent. Whether or not a country can achieve rapid progress in the economic, scientific, technological and cultural fields is inseparable from whether or not it actively participates in wide-ranging exchanges in resources, science, technology, information

and spiritual wealth with other parts of the world. After the victory of the October Revolution, Lenin time and time again emphasized the need to make use of the cultural and technological fruits of capitalism in building socialism. He also specifically suggested a number of ways to utilize foreign capital and technology. This included the system of leases and concessions, setting up cooperative enterprises using foreign investment, accepting foreign loans, inviting foreign experts to help with construction, and so on. An important reason why Japan, West Germany and other countries could recover so rapidly from the great traumas of war and make outstanding achievements after the war was that they had taken advantage of the international situation, absorbed foreign capital and advanced technology, and actively expanded economic, technological, and cultural exchanges with foreign countries. Among the developing countries, those that have achieved relatively rapid economic progress over the last 2 decades likewise also owe their achievements to the fact that they have made full use of foreign capital, imported technology and advanced management methods, and strengthened foreign trade.

Comrade Deng Xiaoping said: "What Marxism stresses most strongly is the development of the social productive forces.... During the socialist stage, the most fundamental task is to develop the productive forces." He also pointed out: "The present-day world is an open world. It is impossible to carry out construction behind closed doors. In order to speed up economic development, we have formulated the policies of invigorating the domestic economy and opening to the outside world." (Footnote 2) (See RENMIN RIBAO, 1 July 84)

We have traversed a tortuous course in our economic relations with foreign countries since the founding of the PRC. For this, we cannot put the entire blame on our subjective inclination to close the country to international intercourse. There are objective historical reasons. First, major capitalist countries headed by the United States had, for a long time, been hostile to us and imposed a blockade against us. Second, the Soviet Union tore up its economic contracts with our country in the early 1960's. From then on, we were forced to greatly reduce our economic intercourse with the Soviet Union and some East European countries. This taught us a lesson and caused us to more steadfastly follow the road of self-reliance. During the period when our national economy was in difficulties, the people of our country lived frugally and endured great hardships in order to repay all the money borrowed from the Soviet Union (equivalent to about \$1.9 billion at that time). Thus we had proudly put forward the slogan "Let there be neither foreign nor domestic debts." This slogan was merely the product of specific historical conditions and, objectively speaking, its role was negative. Third, for a considerably long period of time, particularly during the "Cultural Revolution," we had gravely distorted the policy of self-reliance by lopsidedly interpreting it as sole reliance on ourselves, setting it against the expansion of economic and technological exchanges with foreign countries, and blindly opposing anything foreign. This was the ignorant standpoint of closing the country to all international intercourse. During the early days of the "Cultural Revolution," Jiang Qing connected the so-called escargot incident, which was said to be "humiliating to us" with the importation of color television

technology from France and brazenly stopped the import of the technology. This delayed the production and development of color television sets in our country for more than 10 years. The Dalian shipyard started to trial-produce low-speed marine diesel engines in 1958. After 20 years, the task remained uncompleted, although several tens of millions of yuan had been spent. In 1980, the shipyard purchased the technology for manufacturing this kind of diesel engine from Switzerland and Sweden at a cost of only \$1 million plus. Under the guidance of foreign engineers and technicians, they turned out marine diesel engines of advanced world standards in a matter of only 2 years and installed these engines on vessels for export and for domestic use, thus putting an end to the history of the import of this kind of product in our country. This shows the serious consequences of closing our doors, turning a blind eye to the development of advanced science and technology in the world, and not actively making use of the methods of economic cooperation, technological transfer, and so on which are commonly practiced among nations. Our scientific and technological advancement became sluggish, our production efficiency dropped, our products could not compete in international markets, and the gap between us and the developed countries in the economic and technological fields became wider and wider. If, instead of doing what we did, we had adopted an open-door policy, actively developed economic and trade relations with foreign countries, made the fullest use of foreign capital, imported technology, and strengthened technological exchanges and economic cooperation with foreign countries, we would have strengthened our self-reliance rather than weakened it, provided that we were good at mastering all these aspects.

After the 3d Plenary Session of the 11th CPC Central Committee, the party Central Committee summed up positive and negative experiences over the past 30 years and more and came up with the conclusion that China had to open itself to the outside world if it were to achieve modernization. A series of correct policies for expanding economic, technological, and cultural exchanges with foreign countries were then formulated, and opening to the outside world was written into the PRC Constitution as a basic policy of the state. These have been formulated in accordance with the Marxist theory on commodity economy and international division of labor and in light of our national conditions. Whether or not a country needs to develop economic and technological exchanges with foreign countries and needs to make use of foreign markets, funds, resources and technology is determined by the extent of the development of its commodity economy. In the past we did not feel any imminent need to develop economic and technological exchanges with foreign countries because our productivity level was low and our commodity economy was underdeveloped. With the development of the socialist commodity economy, we must make greater efforts to do away with the isolated and closed-up nature of nationalist economy, eradicate the roots of the closed-door natural economy, persist in opening our country to the outside world and facing the world, and strengthen economic and technological exchanges with foreign countries through appropriate means in order to promote the modernization of our country.

## II. The Situation and Achievements in Our Opening To the Outside World

It has been 5 years since the Central Committee first put forwards the policy of opening our country to the outside world. What is the situation now? What have we achieved? What are the problems? I wish to discuss these in the following respects:

1. Through expanding foreign trade, we have promoted production and circulation and enlivened the national economy. Having brought about a favorable balance of foreign trade and international payments and increased our foreign exchange reserve, we are now able to take the initiative in economic and trade dealings with foreign countries.

In recent years, China has actively expanded trade and developed multilateral economic ties with the West, the Soviet Union, Eastern Europe and the developing countries on the basis of equality and mutual benefit. At present, we have already established trade ties with 174 countries and regions in the world. In 1983, the total turnover of our export and import trade was nearly double that of 1978. During the same period, the total turnover of exports registered an increase of 120 percent, accounting for 1.23 percent of the world's total turnover of exports, up from 0.75 percent in 1978. This moved China up from the 32nd place to the 16th in the ranks of the world's exporting countries. In addition, China also obtained a huge amount of revenue through various flexible forms of trade, such as processing and assembling of products with materials, specifications, or parts provided from abroad. In Guangdong Province alone, processing charges collected over the last 4 years amounted to \$510 million and processing provided jobs for 330,000 people.

Since 1981, our exports have exceeded imports every year. During the 3 years between 1981 and 1983, we had a favorable trade balance amounting to \$9.4 billion. Thus, we have not only cleared the international commercial loans of the previous years but had, by June this year, accumulated as much as \$16 billion in foreign exchange reserves. This shows that our international financial position has become much stronger and has enabled us to take the initiative in economic relations and trade with foreign countries.

More importantly, the expansion of foreign trade and the readjustment of the composition of import and export commodities have accelerated the readjustment of the national economy so that it can develop in a benign cycle. For example, as a result of our decision to import more than 10 million tons of grain annually a few years ago, we were able to reduce grain requisition from the peasants. This reduced the burden on the peasants and enabled them to expand the areas sown to cotton, oil-bearing plants, sugar-bearing plants, tobacco, and other cash crops. While grain production increased, the output of cotton, oil, sugar, tobacco, and so on also increased gradually. At present, we are more than self-sufficient in oils, tobacco, and cotton. The quantities of grain and sugar imported have also been greatly reduced. In this way, huge amounts of foreign exchange spent on purchasing agricultural products in past years can be used to purchase technology and equipment and import necessary raw materials in the future. Of course, the foundation of

imports is exports. One of the reasons that exports have grown so rapidly in recent years is that we changed the principal composition of export commodities in 1982 from agricultural and sideline products and their processed goods to industrial and mineral products. The proportion of industrial and mineral products in the total turnover of exports increased from 37.4 percent in 1978 (9.3 percent in 1950) to 57.4 percent in (1982), while that of agricultural and sideline products and their processed goods dropped from 62.6 percent to 42.6.

2. We have made initial breakthroughs in using foreign capital and have achieved satisfactory results. This is beneficial to our economic readjustment in that it has accelerated the construction of key energy and communications projects as well as the technical transformation of existing enterprises, and has enabled us to absorb advanced technology and scientific management experience from some foreign countries.

Absorbing foreign capital for construction purposes is a major breakthrough in our policy of opening to the outside world. Between 1980 and the end of 1983, various forms of foreign capital used by us amounted to about \$14.6 billion, of which foreign loans actually used amounted to about \$12 billion, most of which have been repaid. By the end of March this year, foreign debts only amounted to \$3.2 billion.

Our country began accepting loans from foreign governments and from the World Bank and the International Monetary Fund in 1980. In the first half of 1984, intergovernment construction loan agreements worth about \$3 billion were signed, and an agreement has been signed with the World Bank on a \$1.8 billion loan. We borrowed more than \$900 million from the IMF mainly to balance foreign exchange payments for the 1980-1981 period. Most of this loan has now been repaid. During the 1980-1981 period, the Bank of China also borrowed \$7.5 billion from foreign commercial banks in the form of spot exchange loans to pay for a complete set of equipment ordered in the 1978-1979 period. These loans, borrowed at market rates, have been repaid at different times during the 1982-1983 period. Except for a few localities, departments, and enterprises which still borrow small commercial loans from foreign banks, our country has a very light debt burden as far as high-interest debts are concerned. However, buyers credits (of lower interest rates) for paying for imported equipment have increased from year to year. By the end of June this year, such credits amounted to \$567 million. This is quite normal.

Since the promulgation of the "Law on Joint Ventures Using Chinese and Foreign Investment" in 1979, the number and size of joint ventures, cooperative undertakings and cooperative developments using Chinese and foreign investment, as well as enterprises using exclusively foreign investment, have increased. By the end of June this year, investment already agreed upon amounted to nearly \$8 billion, of which \$3.32 billion had already been put to use. Of this:  
1) Joint ventures using Chinese and foreign investment number 362, and investment contributed by the foreign participants amounts to \$530 million.  
2) Cooperative undertakings using Chinese and foreign investment number 1,372, and foreign investment amounts to \$3.48 billion. 3) Cooperative developments

(mainly the prospecting for and exploitation of offshore oil) number 23, and foreign investment amounts to \$2.42 billion. 4) Enterprises using exclusively foreign investment number 53, and investment amounts to \$385 million (mainly in Shenzhen and other special economic zones). 5) Compensatory trade projects number 1,137, and foreign businessmen have invested \$870 million in these. 6) In the processing of goods with materials and so on provided from abroad, foreign businessmen have advanced \$280 million as capital for the purchase of equipment.

The above-mentioned foreign loans and investments have played, and are playing, an increasingly more important role in our country's modernization.

First, a number of important construction projects have been launched to make good the shortage of construction funds in our country. For example, with the help of energy loans from Japan, we have extended and constructed coal mines with an annual production capacity of 21 million tons, and we have greatly enhanced the prospecting and extracting capacities of our on-shore oilfields. The ports at Qinhuangdao and Shijiusuo and the Beijing-Qinhuangdao and Yanzhou-Shijiusuo Railroads, built with the help of funds provided by the Japan Overseas Cooperation Fund, can increase the coal shipment capacity of Shanxi and Shandong by 35 million tons. The Guangdong Nuclear Power Plant undertaken jointly with Hong Kong businessmen, the Pingshuo open-cut mine in Shanxi undertaken jointly with an American firm, the Yaohua float glass factory in Shanghai undertaken jointly with a British firm, the Volkswagen motor works in Shanghai undertaken jointly with a West German firm, and so on, are huge products employing the world's most advanced technologies with investments running into hundreds of millions of dollars. These projects are important in that they can help overcome our pressing needs in the fields of energy, communications, and building materials.

Second, they have helped restore life in some of those projects which had been scheduled for suspension or stoppage due to the lack of funds during the period of economic readjustment. For example, with the help of loans from Kuwait, work on the Anhui cement factory and the Xinjiang chemical fertilizer plant for which complete sets of equipment had been imported has resumed, and the Xiamen international airport can be completed ahead of schedule. With the help of commodity loans from Japan, work on the Daqing petroleum ethylene chemical plant which had been suspended, and the first phase of the Baoshan iron and steel complex which was halted due to the shortage of funds, can continue. The China International Trust and Investment Corporation cooperated with the Ministry of Textile Industry and, through such means as issuing bonds in Japan, absorbed foreign capital to finance the Yizheng chemical fiber plant in Jiangsu which was to be suspended.

Third, they have promoted the prospecting and exploration for China's off-shore oil. Between 1980 and 1981, China cooperated with 48 foreign petroleum companies in prospecting for offshore petroleum resources. Investment put in by foreign firms amounted to \$240 million. After carrying out geophysical surveys within an area of 420,000 square kilometers over a period of more than 1 year, 47 promising oil-bearing structures have been located. The detailed

reports on prospecting and the assessment of resources submitted to us by the foreign firms have enabled us to map out plans for the further exploration of offshore oil. Since last year, China has been inviting bids from interested major oil companies of the world to jointly prospect and develop its oil-fields. The Sino-Japanese and Sino-French petroleum prospecting and exploration companies in the Bohai Sea and in the Beibu Gulf of the South China Sea are making smooth progress and have sunk several high-yielding oil and gas wells over the last 3 years. Commercial exploration has begun in Niebei oil-field, a joint operation with Japan. Working jointly with the Atlantic Richfield Company of the United States, we have also explored rich natural gas reserves in the Yingge Sea and are planning to build a chemical fertilizer plant on Hainan Island. Offshore oil will be one of the major sources of oil in the future. If we rely solely on our own strength and make no effort to absorb foreign funds or technology, it is unlikely that we can carry out large-scale exploration in the near future.

Fourth, they have promoted the technological transformation of old enterprises and raised the technological and managerial levels of these enterprises so that their products can compete in international markets. For example, the Tianjin winery, in a cooperative venture with Remy Martin of France, imported advanced brewing technology and equipment from France which made it possible to shorten the production cycle from 2-1/2 years to 3 months. "Dynasty" brand semi-dry white wine is selling very well in dozens of countries in Europe and America and also in Japan. It was awarded a gold medal at the Leipzig Expo in March this year. Wineries from Beijing, Yantai, Qingdao and other places all learned from it. This serves to raise the technological level of the whole industry.

It can thus be seen that the advantages of making use of foreign funds in developing our economy are notable. Joint ventures and cooperative undertakings using Chinese and foreign investment are state-capitalist in nature. They are legal entities under the administration of the Chinese Government, and China has complete sovereignty over them. It has been worked out that if, in a joint venture, the proportion of the investment contributed by each participant is 50 percent, the Chinese side will have access to over 70 percent of the tax and profits. This amount, plus the income earned by the staff and workers by their services, together with earnings reaped by other enterprises that supply raw materials and supporting parts and carry out marketing, means that China had a lot more to gain. Thus, running enterprises with foreign funds is indeed an important and indispensable supplement to our socialist construction. Of course, it will also bring new problems along with it, but the negative factors entailed are much smaller than the positive effect of speeding up the development of our construction.

3. The import of advanced technology from foreign countries has seen initial results. Increased import of technology is bound to raise our country's scientific, technological, and industrial levels and yield fruitful results.

Making use of foreign funds to import advanced technology and management methods is one of the many ways to import technology. The import of

technology covers a very wide scope and cannot be taken simply as the introduction of production techniques with industry as the basis. It also covers management, the circulation of materials, energy-saving techniques, the techniques of analyzing and forecasting market trends, and so on. Technology can be imported through many channels, such as technology transfer permits, cooperative production, technological cooperation, technical counselling, and technical services, all of which may be called software. Of course, technology may also be obtained through the import of equipment, compensatory trade, the processing of goods with materials provided from abroad, and other forms of trade. Before 1980, technology was mainly imported through the import of equipment, that is, the purchase of hardware, and little attention was paid to the import of software. Between 1973 and 1977, only three software import contracts were signed and the total volume of business only amounted to \$5.84 million. During the same period, the volume of business transacted in regard to equipment amounted to \$8.3 billion. The situation changed after 1980. Between 1980 and 1982, software worth \$350 million was imported. In 1983, the volume of business rose to \$570 million and, in the first half of this year, it further increased to \$800 million. The rapid extension of the scale of the import of technology is related to government encouragement, such as allowing foreign exchange loans.

The effect of import of technology is very noticeable. Take the electronics industry for example. Over the last 3 years, hundreds of enterprises have imported advanced technology and equipment worth nearly \$600 million. This has greatly raised the technological level and the output quality and quantity of our electronics industry. Take durable electronic consumer products for example. In 1979, China produced 1,320,000 television sets and 160,000 tape recorders. By 1983, these figures had increased to 6,820,000 and 4,810,000 respectively. In 1979, only 9,431 color television sets were produced. In the first half of 1984, the number had shot up to 480,000.

However, what we can buy with foreign exchange is merely mediocre technology that is quite commonly used in production abroad. Foreign capitalists will not easily agree to transfer the most advanced technology. Even if they do, they will ask a very high price (for example, the cost for the transfer of the Kodak color sensitive film technology was as high as \$100 million). Up to now, we have imported very little sophisticated technology. Some sophisticated technologies, such as ultra-large integrated circuits, are still barred to us by the United States and Paris Coordinating Committees. We must step up our research and tackle these technologies ourselves. We must take the assimilation and development of new technologies, new materials, and new equipment as an integrated whole, integrate scientific research with production and foreign trade, combine importation with our own innovation and creation, and make improvements on the basis of the import of technology. In addition, efforts must be made to combine the introduction of new technology with trade. This means that when we purchase equipment from foreign countries, we should bargain with the other party and persuade them to transfer the manufacturing technology as well. In order to do more business, foreign firms are usually willing to give the matter some consideration.

Technology develops at a very fast pace and changes with each passing day in this modern world. We can never catch up by trailing behind others. We must raise our technological level, master new technologies, and most important of all, train qualified people and strengthen our own research and development. We must constantly take part in international technological exchanges, learn from the advanced theories and experience of other countries, promptly obtain information on new technologies and inventions in the world, cooperate with foreign enterprises in production and design, and cooperate with foreign enterprises and research institutes in research. These are good ways to raise our country's technological level through international exchanges and cooperation.

4. The special economic zones have yielded initial results and experience. They will be run even more successfully in the future and become windows through which technology, managerial skills, and knowledge are imported and through which China opens itself to the outside world.

In 1980, China successively set up special economic zones in Shenzhen, Zhuhai and Shantou in Guangdong and in Xiamen in Fujian. This was a far-sighted policy decision of strategic importance made after the implementation of the policy of opening to the outside world.

In delineating certain areas from Shenzhen and three other cities to form special economic zones, we are taking advantage of the fact that these places are adjacent to Hong Kong and Macao, have a large number of Overseas Chinese, are easily accessible, and have the tradition of foreign intercourse. In these places, bolder policies than those implemented in the hinterland and other coastal regions are introduced, and favorable treatment is given to foreign firms. This is aimed at absorbing foreign funds in a concentrated way and importing advanced technology and management experience. The special economic zones may also be used as places for carrying out experiments in bringing the market mechanism into play in a predominantly socialist economy. To a certain extent, they may become a "filter" between the capitalist economy of foreign countries and the socialist economy of the hinterland areas. They may absorb what is beneficial to our country so that we can learn from other's strong points to offset our weaknesses and promote our reform of the economic system.

The industrial structure of the special economic zones will be mainly export-oriented, to be supplemented by imports. Certain goods that involve advanced technology and are really needed in our country may be sold in the domestic market. In this sense, the special economic zones are windows and bridges through which economic, technological, and cultural exchanges with foreign countries are continued. For example, Shenzhen, Xiamen, and other special economic zones have developed or are developing into comprehensive cities encompassing industry, agriculture, commerce, tourism, science and technology, and culture. Comrade Hu Yaobang once proposed: "Special matters require special handling and new things require to be handled in new ways. Our stand will remain unchanged, but the methods of work will be brand-new." This concept has become the guiding ideology for carrying out experimental reforms and for working creatively in the special economic regions.

5. Our economic, technological, scientific and cultural exchanges and cooperation with various countries of the world have developed on an unprecedented scale. These have enabled us to absorb up-to-date information and rich nutrition in relation to natural sciences, social sciences, economic management, technological knowledge, and so on. They have broadened our horizons and raised our levels.

Since implementing the policy of opening to the outside world in 1978, our country has been cooperating with the United Nations by giving donations and receiving aid from the organization. Cooperation is progressing at a fairly fast pace and has produced positive results. China is now cooperating with the United Nations Development Program, the International Monetary Fund, the World Bank and dozens of other organizations. "South-South Cooperation" with the Third World has also been greatly strengthened.

We have also actively developed cultural, educational, scientific and technological exchanges and cooperation with foreign countries. According to statistics, between 1978 and 1983, China sent representatives to participate in 700 international academic meetings. During the same period, more than 20,000 people were sent to 54 countries to further their studies, more than twice the number sent in the 17 years before the "Cultural Revolution." At present, more than 150 institutions of higher learning have established different forms of cooperative ties with over 250 foreign institutions. This includes the exchange of scholars, lectures, books, reference materials, theses and cooperation in teaching and scientific research. Over the last 6 years, we have signed cultural agreements with 64 countries, and the number of countries and regions with which we have cultural contacts has increased to 130.

Our tourist industry has also made great headway following the opening of the country to the outside world. In 1979, we received 360,000 foreign tourists, or a total of 420,000 if compatriots from Hong Kong, Macao, and Taiwan and Overseas Chinese are included. From this we earned \$260 million in foreign exchange. In 1983, the number of tourists visiting China increased to 9.477 million, of which 870,000 were foreign tourists. Foreign exchange earnings produced by tourism amounted to \$940 million.

In short, the policy of opening to the outside world has opened up a smooth and wide road of maintaining extensive contacts and friendly exchanges with the people of various countries, advancing and developing hand in hand with them under the principle of equality and mutual benefits. This is of utmost importance to promoting China's modernization, maintaining world peace, and developing international cooperation. The reason for this is that the implementation of the policy of opening to the outside world is advantageous both to China and to the outside world because we can both learn from the others' strong points to offset our own weaknesses. As Comrade Deng Xiaoping said: "From the angle of world politics and economy, China's development is conducive to world peace and to the development of the world economy." "This is because following its entry into the international community, China can, on the one hand, secure funds and technology from the developed countries and,

on the other, make greater contributions to international economic development." (Footnote 3) (See RENMIN RIBAO, 7 October 1984)

### III. Our Initial Experience in the Work of Opening to the Outside World

What is our experience in the work of opening to the outside world? How can we make further improvement. The following are some of my views:

First, opening to the outside world is China's long-term basic policy, not a measure of expediency. Even if we achieve modernization, become affluent and raise our technological level, we must continue our open policy, continue to use funds from abroad or invest in certain enterprises and establishments abroad, and continue to expand foreign trade and import and export technology. Comrade Deng Xiaoping said: "This policy of China's will not change in this century, nor in the first 50 years of the next century, and it is very unlikely the policy will change in the 50 years following that. And it will be simply impossible to change it when China's economic and trade ties with other countries have developed and become closer." (Footnote 4) (See RENMIN RIBAO, 12 October 1984) Thus, we must have a long-term point of view and have long-term plans for conducting economic cooperation and technological exchanges with other countries.

Second, in order to implement the policy of opening to the outside world, we must eliminate remnant "leftist" ideas favoring the closing of the country to international intercourse. In particular, we must recognize the relationship between opening to the outside world on the one hand and maintaining independence, keeping the initiative in our own hands, and protecting our national industries on the other, and integrate the two rather than set them as opposites. Our aim in opening to the outside world and in importing funds, technology, and scientific management experience from other countries is to supplement the socialist economy, speed up the building and development of socialism, and strengthen, rather than weaken, our capacity for maintaining independence and keeping the initiative in our own hands. When we use commodities we produce ourselves to exchange or purchase technological equipment and materials that we lack from foreign countries, we are keeping the initiative in our own hands. It is wrong to indiscriminately import complete sets of equipment, or even to import ordinary machinery, materials and articles of daily use that we can produce ourselves. However, it is equally unrealistic to hope that China can produce everything within the country in the near future. This idea of having things "made in China" merits concrete analysis. Some equipment can and should be "made in China." But, in regard to equipment that involves complicated and specialized technologies but which is only used in small quantities, it does not necessarily have to be China-made. It is not always economical to go out of our way to produce everything ourselves. These days, much equipment in the international market is produced by a number of countries through specialized division of labor or joint operation. Equipment of a crucial and specialized nature may be imported, even for long periods, if it is more economical to purchase such equipment from abroad than to study ways of making it ourselves. For some industries, there is no need to use China-made products all the way through. Take the iron and steel

industry for example. Since China does not have many rich iron mines and mining is costly, we may import more ores and begin with iron-smelting. We may even import pig iron and begin with steel smelting to produce steel products. In the electronic industry, we may also proceed from importing parts and components for assembly and gradually strive to become self-sufficient in parts and components. In this way, modernization will start well and develop quickly. On the question of protecting national industries, we must also embrace a new viewpoint. On the whole, when a newly emerging industry is in its embryonic stage, it is necessary to protect it by restricting imports. But, when it has developed to a certain stage, we should expose it to competition in the international market. Only in this way will efforts be made to improve technology and management. Otherwise, we will have to protect the backward for a long time. Flowers grown in greenhouses cannot withstand a storm. On the question of using foreign funds, we must uphold the principle of equality and mutual benefit and guard against being cheated due to lack of experience. However, we must at the same time have the general goal in sight and base our considerations on macroeconomic interests rather than haggling over minor details. If we do not offer foreign firms reasonable profits, we will not be able to attract foreign funds.

Third, opening to the outside world must go hand in hand with the enlivening of the domestic economy, that is, the work of reforming the economic structure. This structural reform is the only way for us to perfect and consolidate our socialist system. Opening to the outside world is a component part of this reform and, to a certain degree, it promotes the restructuring. After opening to the outside world, we have, in the course of the past few years, summed up experience in socialist construction at home and abroad, assimilated the experience of different countries, including developed capitalist countries and developing countries, in developing their economy, and found the road to building socialism with Chinese characteristics. However, this still needs to be further enriched and developed through the practice of reform. At present, many of our economic structures cannot meet the needs of opening to the outside world. These include the foreign trade management structure, foreign funds management structure, and pricing structure. It is only through further reform that we can promote the smooth development of economic relations with foreign countries and create a new situation in our economic relations and trade with foreign countries.

Fourth, we must correctly learn from the experience of other countries. Since our opening to the outside world, we have seen unprecedented contacts between our nation and nations of the world, particularly capitalist countries of the West. There are many new theories and much knowledge, experience, and information, whether in the field of natural sciences, or social sciences, or economic management, that we can learn from, study, explore and use for reference. We must apply the Marxist stand and viewpoint in analyzing them and then assimilate them critically. Comrade Deng Xiaoping said: "In carrying out our modernization program, we must proceed from the realities in China. Both in our revolution and construction, we should also learn from foreign countries and draw on their experience. But mechanical copying and application of foreign experience and models will get us nowhere. We have had many

lessons in this respect. To integrate the universal truth of Marxism with the concrete realities of China, blaze a path of our own and build socialism with Chinese characteristics--this is the basic conclusion we have reached in summing up long, historical experience." (Footnote 5) (Deng Xiaoping: "Opening Speech at the 12th National CPC Congress," "Selected Works of Deng Xiaoping," pp 371-72) In my opinion, we must follow these teachings in learning from foreign experience after our opening to the outside world.

In these past years, while continuing with our efforts to earnestly learn from the useful experience of other socialist countries in economic management, we have also learned quite a lot from the Western countries. This is because we never had the conditions or dared to attempt a thorough understanding of capitalist economic management methods, and we found them quite foreign to us. The capitalist societies have accumulated rich experience in economic activities through the past centuries. Despite the difference in our social systems, there are bound to be quite a large number of economic management methods that accord with the law of development of large-scale socialized production, particularly methods for developing the commodity economy and for developing science, technology, and the forces of production, that are worth studying and exploring. Lenin said: The working class that has seized political power "has set itself the task of turning the sum total of the very rich, historically inevitable, and necessary for us store of culture and knowledge and technique accumulated by capitalism from an instrument of capitalism into an instrument of socialism." (Footnote 6) (Lenin: "Speech at the First Congress of Economic Councils," "Collected Works of Lenin," Vol 27, p 387)

Fifth, before opening our country to the outside world, we must introduce legislation by formulating specific laws, regulations, principles and policies in regard to economic relations with foreign countries so that both the Chinese side and foreign firms have rules to follow. This is an important factor for improving the investment environment. In the preceding stage, we suffered some losses in absorbing foreign funds because legal work could not catch up with the needs of an open policy. We must catch up as quickly as possible. Laws already promulgated should be promptly amended and made perfect if they are found to be imperfect after being tested in practice.

#### IV. Some Questions on the Further Implementation of the Policy of Opening to the Outside World

##### 1. The significance and policy of opening 14 coastal cities to the outside world.

The State Council has decided that while making an effort to run the special economic zones still better, China will open 14 coastal cities--Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai--as well as Hainan Island, to the outside world. In these places, certain special policies designed for the special economic zones will be applied and their decision-making power will be extended.

Why is it necessary to open 14 coastal cities to the outside world? Because China's opening to the outside world in the new historical period is a gradual process. We have already gained initial results and experience in setting up special economic zones in Shenzhen and other places. The central leading comrades have pointed out that the development and experience of Shenzhen proved the correctness of our policy of setting up special economic zones. In setting up special economic zones and implementing an open policy, one guiding ideology must be made clear: We must allow flexibility rather than tighten control and must run the special economic zones still faster and better. In addition to the existing special economic zones, we may consider opening a few more places to the outside world and adding a few coastal cities to the list. These will not be called special economic zones, but certain policies designed for the special economic zones may be applied there. To this end, the Secretariat of the CPC Central Committee and the State Council convened a meeting which was attended by representatives from some coastal cities, during which the policy and measures for opening 14 coastal cities to the outside world were studied and proposed.

These cities are all built in economically developed regions along the coast where transport is convenient and the industrial foundation is solid. These places also have a flourishing development of science, education, and culture. They have subjective as well as objective conditions for conducting economic and trade activities with foreign countries, and have the networks necessary for maintaining economic ties and coordination with the vast hinterland. Together with the four special economic zones and Hainan Island, these coastal cities will form a line running from south to north along China's coast that will serve as the forward position for China's opening to the outside world. Their opening will facilitate the absorbing of foreign funds and the import of technology. In this way, they can speed up their own economic and technological development as well as give impetus to the development of the hinterland areas in their endeavor to absorb advanced technology, popularize experience of scientific management, transmit economic information, and train and supply qualified personnel. All this will promote China's socialist modernization.

In the 14 open cities, it is only under given conditions that certain policies designed for the special economic zones will be enforced. They are entirely different in nature from the special economic zones. Because the subjective and objective conditions of these cities vary greatly, it is necessary to proceed from reality and not seek uniformity in the degree of opening and in the pace of development. With regard to the building of new economic and technological development areas, in particular, it is necessary to map out concrete plans and submit them to the State Council for examination and approval.

The opening of these 14 cities has greatly aroused the enthusiasm and vigor of the local governments and people for modernization. It has also drawn good response and attention from the world, and is seen as a concrete step on the part of China to unswervingly implement the policy of opening to the outside world. Entrepreneurs from all over the world have dispatched delegations to

these cities for inspections and talks on investment and cooperation. In the first half of this year, contracts for 503 projects financed by foreign capital were signed. The total investment amounted to over \$510 million. More projects are under negotiation. Thus, years of efforts in absorbing foreign funds have reached a climax.

In the policy of opening these coastal cities, a contradiction arises over the question of whether to concentrate the main energy on transforming the existing enterprises or on developing the new economic and technological development areas. For some time, the leaders of some cities had paid greater attention to the planning and construction of new development areas. It has recently been pointed out by the central leading comrades that at present, we must concentrate our main energy on transforming the old city areas and old enterprises while actively creating conditions for the gradual construction of the development areas. In the development areas, we should mainly invest in industrial projects involving advanced technology. We may appropriately leave some room for maneuver when mapping out plans, but must act according to our capabilities. We should develop by degrees and put each section that has been completed into production so as to yield results. Initially the sections need not be very big, just two to three square kilometers in size will do. And they should be filled with enterprises that are truly up-to-date, promising, and can play a crucial role in the technical transformation of the industries. The development areas also should not be too far away from the city proper. They must rely on the key cities for support, be geared to the needs of the vast economic hinterland, and form a crisscrossing and organic development network through the selection of sites and the layout of the production structure. Development areas must have specific objectives, must perceive major and long-term interests and must grasp technological projects that can best bring out the local strong points.

## 2. On the question of the establishment of enterprises in China using exclusively foreign funds.

There are now more than 50 wholly-owned foreign enterprises in our special economic zones, 42 of which are set up in Shenzhen. According to investigation, they are useful to China in the following ways: 1) They make up for our shortage of construction funds. By the end of 1983, the agreed investment of wholly-owned foreign enterprises in Shenzhen amounted to HK\$2.017 billion, and money already invested in the area totaled HK\$280 million. During the same period, the agreed investment of joint ventures only amounted to HK\$1.17 billion, and money already invested totaled HK\$260 million. This shows that some foreign businessmen only wished to set up wholly-owned enterprises and were unwilling to enter into joint ventures with us. If we do not allow foreign businessmen to establish enterprises through their own exclusive investment, their funds will not flow into China. 2) They bring relatively advanced technology into our country. 3) They increase employment opportunities. The number of workers and staff employed by 8 factories that have already gone into operation totals about 5,000 and the annual income for their services amounts to more than HK\$5,000. 4) They make use of some of our raw and semi-processed materials (including the corn, bran, and bean waste

necessary for making fodder) and energy, and pay for transport services, thus increasing our foreign exchange earnings. 5) They enable us to learn from the advanced management experience of the foreign enterprises and help train managerial and technical personnel of modern enterprises.

The difference between wholly-owned foreign enterprises and joint ventures is: The former are established by foreign businessmen through their own exclusive investment and they are responsible for their own profits, risks, and losses. The rights to manpower, financial resources, goods, supplies, production and marketing all rest in the hands of the foreign businessmen. The principal managerial personnel are appointed by the foreign businessmen, and Chinese staff and workers are employees who cannot take part in management and have no access to technical secrets. As far as the relationship between foreign businessmen and the staff and workers is concerned, exploitation definitely exists. However, foreign-funded enterprises are legal entities that carry out legal economic activities with the approval of, and under the supervision and management of the Chinese government. They must observe Chinese laws. Their conditions of work and wages are, on the whole, similar to those of joint ventures and are slightly better than that offered by state-run enterprises. They must pay income tax and remittance tax on their profits. Thus, they are capitalist enterprises under the management and control of the socialist state power. We permit the existence of a certain degree of exploitation in these enterprises because we want to develop our economy and because they are conducive to the modernization program. They account for a very small proportion of the national economy and, as a supplement to the socialist economy, they will not change our social system.

### 3. On the question of strengthening overall planning and policy research.

In our opening to the outside world, there must be overall strategic deployment with respect to the scope, degree, and steps of opening. In the fields of foreign trade, use of foreign funds, import of technology, and so on, more long-term planning is necessary. At present, we must concentrate on helping the 14 coastal cities and Hainan Island improve their investment situation, and study and work out development strategies and concrete plans for these places in light of their characteristics and strong points.

On the policy of opening to the outside world, it is necessary to strengthen comprehensive research. We must attract theoretical workers to take part in the work, conduct in-depth investigations into the actual economic activities of various vocational departments, and constantly discover problems and sum up experience. We must also draw on foreign experience in order to rationally resolve contradictions arising from the imbalance of policies as well as outstanding problems (such as the question of allowing joint ventures to sell their products in the domestic market and balancing foreign exchange, the question of improving the management structure of foreign funds utilization, the question of the management of wholly-owned foreign enterprises, and so on).

4. Firmly grasp the setting up of an international economic information network and do a good job of collecting, processing, transmitting and utilizing international economic information. The work of international economic and technological counselling should also be strengthened.

5. Strengthen the training of qualified personnel for handling economic relations and trade with foreign countries.

At present, we must make an effort to train senior and middle-ranking personnel who can handle international economic activities and management. In particular, we must devote major efforts to improving the qualities of existing cadres. This is the key to doing a better job of opening to the outside world. It is hereby proposed that the Ministry of Foreign Economic Relations and Trade make overall plans and divide the work between the departments concerned and the local authorities so that each can contribute a share.

CSO: 4006/252

## NATIONAL POLICY AND ISSUES

### JOURNAL ON HORIZONTAL ECONOMIC RELATIONS

HK270841 Beijing JINGJI YANJIU in Chinese No. 11, 20 Nov 84 pp 3-8

[Article by Gao Shangquan [7559 1424 0356] of the State Economic System Reform Commission: "Remove the Barriers Existing Between Departments and Regions and Develop Horizontal Economic Relations"--draft revised in October 1984]

[Text] The "Decision of the CPC Central Committee on Reform of the Economic Structure" which was adopted by the 3d Plenary Session of the 12th CPC Central Committee clearly pointed out the direction for the reform of our nation's economic structure. That government and enterprise functions are not separated and that barriers exist between departments and regions is an outstanding contradiction in our nation's economic life. It is also a major malady of the current economic system. Changing this situation, so as to achieve the separation of governmental, and economic functions, the removal of barriers between departments and regions, the rational organization of the economy, and development of a socialist unified market is an important task which we must earnestly carry out in the reform of our nation's economic structure.

#### 1. Removing the Barriers Between Departments and Regions Is a Task Which Brooks No Delay

Since the founding of the PRC, the reform of our nation's economic management system has been carried out centered on central versus local management, and departmental versus regional management.

During the First 5-Year Plan period, an economic management system which mainly used centralized, unified departmental management was gradually formed. This system played an important role in centralizing national finances, material resources, and technical strengths in order to guarantee important construction. But, towards the end of the First 5-Year Plan, the maladies of excessive centralization of power and over-rigid control in the economic system appeared in large numbers.

During the "Great Leap Forward," reform was carried out using expanded local autonomy as its center. Enterprises subordinate to the central authorities were handed over to local management. At the same time, appropriate planning management power, capital construction approval power, financial and taxation

power, and labor management power were also handed down. These reforms would, it was hoped, regulate the contradictions between the central authorities and local authorities, as well as between departments and regions, and arouse the enthusiasm of the localities. However, the power handed down to localities was excessive and it was handed down too suddenly, resulting in the reform departing from the correct road.

The readjustment in the early years of the 1960's again stressed unified leadership and centralized authority, and a system with departmental management as the main part was established. This played an important role in the readjustment of the national economy. However, in the economic management system, the problems of excessive centralization and over-rigid control still existed.

During the "Great Cultural Revolution" criticism was made of a series of correct principles and policy measures, which resulted in great disorder and losses in ideological theory and economic work as well as in other fields. In the early years of the 1970's, there was again the blind devolution of power in the management system.

Due to the effects of "leftist" guiding ideology in economic work, none of the various changes made prior to the 3d Plenary Session of the 11th CPC Central Committee touched on the basic defects of the economic system. These changes had three obvious characteristics:

1. They did not jump clear of the restrictions provided by administrative management. The central authorities and local authorities only made an issue of whether "you should manage it" or "I should manage it." They did not change the situation where state control of enterprise management was too rigid.
2. The repeated centralization and then devolution of power was too frequent. In the course of alternating the centralization of power with the devolution of power, there occurred the situation where control led to rigidity, rigidity led to protests, protests led to devolution of power, devolution of power led to disorder and disorder led again to control.
3. The divisions between the scores of central departments were extended into cities. This affected the bringing into play of the central role of cities. The development of industry, especially heavy industry, was stressed, while the development of basic public utilities and service trades in cities was overlooked. This exacerbated the divisions between departments and regions, and between cities and rural areas, and also exacerbated the blockades between districts.

Since the 3d Plenary Session of the 11th CPC Central Committee, partial and exploratory reforms of the economic relationships between the central and local authorities and between departments and regions have been carried out. In industrial and commercial enterprises, experiments in expanding enterprise autonomy have been carried out, diversified forms of economic responsibility

have been practiced, and the reform of substituting paying taxes for delivering profits have been instituted. To a certain degree, the situation where the state exercised excessively rigid management of enterprises has been changed and a start has been made in arousing the enthusiasm of the enterprises and their workers. Some departments and enterprises, in accordance with the demands of specialized coordination, have established specialized companies, and various forms of combinations have been organized within regions, within departments, and between departments and regions. To a certain degree, the dividing lines between departments and regions have been removed. These reforms have provided beneficial experiences in raising the level of specialized coordination between enterprises, improving the comprehensive use of resources, and linking horizontal economic relationships.

However, the situation where centralization is excessive, government and enterprise functions are not separated, and where there are divisions between departments and regions, and blockades between districts, is still quite serious, and this influences the development of the forces of production. This type of situation often cuts off internal relationships within the economy, results in production being out of line with demand, wastes resources, and obstructs the development of technology. We have reached a time when we must carry out reform.

## 2. Bringing Into Play the Central Role of Cities Is an Important Link in Removing Barriers Between Departments and Regions

The last 30 years of history have shown that using departments and regions to resolve the contradictions between the departments and regions cannot bring about good results. If enterprises are managed by departments, it will produce lines of divisions based on departments. If managed by regions, this will produce lines of division based on regions. Cities are places where departments and regions merge. Bringing into play the central role of cities is an important link in removing barriers between departments and regions.

First, cities occupy an important position in our national economy. Over 90 percent of our nation's financial income comes from urban industry and commerce. Cities utilize about two-thirds of our country's industrial fixed assets, and produce about three-quarters of total industrial production value. The development of the urban economy has a great influence on the overall national economy.

Second, cities are not only industrial production centers. They are also centers of science and technology, culture and education, and centers for training qualified people. Our nation's colleges and universities and scientific research organs are all centered in cities. The cities have strong industrial, scientific, and technical bases, and are important base areas for realizing the four modernizations.

Third, as communications in cities is more convenient, there is easy access to information, and there are socialized storage and transport systems, they have naturally become centers for commodity exchange, centers for the

interflow of goods and materials, and centers of domestic and international trade. From cities, products can be put into the hands of consumers with the greatest speed and at the lowest costs, and information on market needs can be fed back to enterprises in a timely way. Following the development of commodity production in the rural areas, they have urgently required from the cities more and better production data and data on lifestyles, so that they can open up circulation channels and help in resolving the problems of "having difficulties in buying things and having difficulties in selling things." They also require speedier transfer of information, so that the commodities produced in the rural areas will meet a demand, and require that the cities provide more service to the rural areas both before and after production. The urban financial institutions have developed quickly and will play an important regulatory role in economic development.

Fourth, using the central role of cities in organizing economic activities will make it easy to resolve the contradictions between departments and regions. The development of a city's industry is generally not to satisfy that city's needs, but to satisfy the needs of markets in other areas. Cities are unlike regions which can easily follow a closed-door policy and set up regional blockades. Thus, bringing into play the role of key cities is an important link in resolving the problems of barriers between departments and regions and regional blockades.

The basic aim of bringing into play the central role of cities is to quickly develop the forces of production and raise the economic benefits of the whole society. This will be of benefit in building a socialist economy with Chinese characteristics, of benefit in causing the nation to grow and prosper, and of benefit in making the people prosperous. Raising the economic benefits of an enterprise, a department or a region is of course very important. But there must be a precondition--that is, production and circulation must be organized in accordance with the demands of socialized large-scale production. If an enterprise, a department or a region proceeds from its own interests, tries to be "large and complete" or "small but complete" and has its own system, it may, speaking from a very restricted viewpoint, obtain partial "economic benefits" at some time. But, as these "economic benefits" increase, it is possible that the economic benefits for the overall society will decrease. Fully bringing into play the central role of the cities in organizing economic activities will get rid of the situation where there are barriers between departments and regions, and regional blockades. It will really be possible to organize production and circulation in accordance with the demands of socialized large-scale production and thus this is an important strategic measure in raising the economic benefits of the overall society.

How do we bring into play the role of cities in organizing the economy, especially in removing the barriers between departments and regions, and regional blockades?

The first way is, within a city, to remove the dividing lines between departments and organize coordination and combination.

Practice has shown that three forms are effective. The first is to take all the products of the same type within the limits of the city, regardless of which department they are managed by, and taking their different situations into account organize them in accordance with their component parts. Through division of work and coordination, socialized large-scale production will be realized. The second is to take the same type of technological and auxiliary facilities and, regardless of which enterprise they are under, appropriately centralize all the heat-treatment equipment, electroplating equipment, casting and forging equipment, and machinery overhauling equipment which is within the limits of the city. The dividing lines between departments and trades are thus removed and they are then organized into technical coordination centers, which have independent accounting and are solely responsible for profits and losses. Throughout the whole country, 41 cities have readjusted the four important technologies of casting, forging, heat treatment, and plating and got rid of over 2,800 factories. Just through this, over 70 million kilowatt-hours of electricity will be saved each year. The third is to organize the enterprises of different departments by centering them on the comprehensive use of natural resources, or establishing combinations of companies. Since 1981, the Shanghai Gaoqiao Petroleum and Chemical Company, the Nanjing Jinling Petroleum and Chemical Company, and the Fushun Petroleum and Chemical Company have been set up one after the other. They have made a start in removing the dividing lines between departments, in rationally utilizing resources, in bringing into play the capabilities of the enterprises and in improving economic results.

The second is to expand the limits of the cities, so as to gradually form economic zones or economic networks which cut across regions.

In bringing into play the central role of a city, we cannot restrict ourselves to organizing economic coordination and combinations within the city. It is more important that we go beyond the limits of the city to break through the divisions between regions and departments. Thus, we can gradually form department-region combinations and city-rural areas combinations and comprehensively develop agriculture, industry, commerce, transport, science and technology, information, and service trades into economic zones and economic networks of different types and of different scales.

In expanding the limits of the cities and removing regional and departmental dividing lines, the obstructions are many and the difficulties great, and we are still at the stage of fumbling our way ahead. However, some encouraging signs have appeared.

The Chongqing Clock and Watch Industry Company is a company which cuts across regions. It has formed loose alliances with watch factories in Chengdu, Guiyang, and Kunming, and watch component factories in Yongchuan [3057 1557], Hechuan [0678 1557], and other places. There has been division of work and coordination based on the advantages of each place. Complete sets of components are supplied by Chongqing and then assembled in Chengdu, Guiyang, and Kunming. The Kunming Watch Factory has imported equipment and it also produces some component parts to supplement those parts which Chongqing is

unable to make enough of. This has formed a southwest regional clock and watch production combine which has Chongqing as its center and "four cities forming one entity" (Chongqing's "Shancheng" brand, Kunming's "Chuncheng" brand, Guiyang's "Zhucheng" brand, and Chengdu's "Rongcheng" brand). It has brought into play the central role of Chongqing Municipality. It has also avoided having each of the localities duplicating construction in trying to be "large and complete" or "small but complete." Within 3 years, the annual production capacity of "Shancheng" watches has been raised from 500,000 time-pieces to over 1.4 million.

The Hangzhou Glass Factory has participated in three combines. This factory has used its advantages in providing glass fiber cloth and set up, with nine factories, one after another, a powdered mica insulating material joint company, a laminated board products joint company, and a glass and steel products company. Taking the Zhejiang Provincial Powdered Mica Insulating Material Products Joint Company as an example, it was formed through the alliance of the Hangzhou Glass Factory (under the Ministry of Construction), the Jiaxing Insulating Materials Factory (under the Ministry of Machine-Building) and the Fuyang County Fuchunjiang Paper-Making Factory (under the Ministry of Light Industry). The glass factory provided the glass fiber mica base cloth, the paper factory provided the mica paper, and the insulating provided adhesives. These components were combined into powdered mica belts [fen yun mu dai 4720 0061 3018 1601] for use in the production of generating sets by the machinery and electrical products industries. Prior to the alliance, approval for the experimental production of new products had to be gained from the higher authorities in the Ministries of Construction, Light Industry, and Machine-Building. After the alliance, the company could carry out planning by itself and arrange production by itself. This greatly shortened the time needed for these activities and allowed the number of product types produced to grow from two to five. From September 1980, when the joint company was established until 1983, sales of powdered mica belts totaled 2.84 million tons, producing a profit of over 5 million yuan.

The Changjiang Combined Industrial Supply and Marketing Company is a combine which cuts across regions. It was organized voluntarily by a number of large, medium-sized, and small city and neighborhood industries. It has broken through the divisions of administrative districts and, by using particular economic management forms and roles, has opened up a new road for the urban collective economy. Since this company was established in 1980, it has expanded to become a combine of 15 provinces (municipalities), over 30 large, medium-sized, and small cities, and over 60 companies. The characteristics of this company are: 1) The administrative structure is simple and there is no need for the state to subsidize it with even a cent. 2) It organizes and links sales and increases the appeal and competitiveness of products of collective enterprises. It adopts the principle of making good deficiencies and catering to rural grass-roots level supply and marketing cooperatives and individual trades. 3) It has good access to information and through the bulletin "Information" reflects information from all the companies. Thus it plays a role as a go-between.

The third is to arrange well the relationships between key cities and economic zones so as to avoid the cities becoming new "regions."

Under the conditions of developing commodity production and commodity exchange, various types of economic relationships will arise between cities and rural areas and between cities. They form the objective bases for forming large and small economic zones. Cities need their surrounding areas as bases for their development and economic zones need the key cities for support. The economic zones reflect the internal economic relationships and are different from administrative regions. They depend on the economic strength of the cities to radiate in all directions. Some of these radiations will be strong, some weak, and thus some areas will be more greatly affected than others. If the actual economic strength of a city is great, it can attract more surrounding areas and become a key city of a larger scale. Modernization must be built on the basis of social division of labor and progress in science and technology. Socialized large-scale production is the opposite of "large and complete" or "small but complete," and it should not be confined by regional or departmental restrictions. It must go beyond the limits of cities and, within economic zones or even on a national scale, implement wider coordination and combination. Economic zones can have diversified forms: One form can use cities as the center and, through the economic activities of production and technology coordination, commodity interflow, trade to the outside, financial intercourse, consultative service and so on, will link up the surrounding areas; one form can rely on the industrial base and will be centered on construction and production, including energy resources, communications, and heavy and chemical industries. They will remove the departmental and regional barriers, speed the exploitation and comprehensive use of natural resources and form an economic zone; other forms can rely on medium-sized cities and will form medium-sized economic zones to spur on the surrounding areas, or use rural towns as a center for small economic zones.

In bringing into play the central role of cities, could the cities become new "regions?" This is an important question to which everybody is paying attention. Seen from the situation which has appeared in actual economic life, we must maintain sharp vigilance in this respect. Some cities have wanted to "become the center," to become "large and complete" and become systems in themselves. Some are not willing to combine with other areas and some have broken off cooperative relationships with outside areas. These cities have started to produce in their own factories those things which had previously been processed in other areas or purchased from other areas. They have ordered that enterprises in the city not be allowed to select or purchase sets of equipment or parts through coordination with outside areas. These methods clearly cannot bring into play the role of the cities. They restrict the development of the commodity economy, do not conform with the demands of socialized large-scale production and are not beneficial to raising social economic results.

In order to fully bring into play the central role of the cities, and avoid the cities becoming new "regions," we must, in regard to the economic system and policies, resolve the following two problems:

First, we must further improve the system of substituting taxation for delivering profits, and gradually change the method whereby profits are handed over to the various levels of financial departments in accordance with administrative jurisdiction relationships. If enterprises pay taxes to central and local authorities based on tax categories and tax rates stipulated by the state, this will avert the situation where departments and regions unnecessarily interfere administratively in enterprises on the basis of their own economic interests. The further improvement of the system of substituting taxation for profit delivery can cause the present graded financial system based on division of profits to gradually change into a graded financial system based on division of taxes. If enterprises no longer have to hand over profits in accordance with administrative relationships, it will be of benefit in resolving the economic relationships between central authorities and local authorities, between departments, and between regions. It will also produce definite conditions for overcoming the barriers between departments and regions, and regional blockades. In this way, it can make the horizontal relationships between enterprises much closer and promote the enterprises' organizing production and circulation in accordance with economic rationality and the demands of socialized large-scale production. It will also promote the vigorous development of the economic zones which depend on the cities, and thereby guard against the cities becoming new regions.

Second, we should gradually reform the assessment targets and statistical systems. In designing planned target systems, we must gradually change from planning which has material object targets as the main part to planning which has value targets as the main part. The present multi-level government assessment system based on output value and profits is not beneficial to improving economic results and can easily give rise to being "large and complete" or "small but complete" and the forming of a system by oneself. Some advanced cities have invested in and formed alliances with other places, but the production value, speed of development and economic results are calculated in the place where the investment is made. This has affected the enthusiasm of enterprises in investing in other areas. In order to implement the policy of also opening up domestically, it is necessary, while reforming the assessment target and statistical systems, to formulate investment methods and provide preferential conditions in allocating profits, in taxation, and in other aspects. This will allow the rational flow of funds, encourage enterprises to invest in other provinces and cities, and promote combinations and alliances which cut across regions and departments.

### 3. A Single Socialist Market Can Only Be Established On the Basis of Widely Developed Horizontal Economic Links

Zhao Ziyang in the government work report given at the Second Session of the Sixth NPC pointed out that: We should "transform the existing commodity circulation system, which consists of unified purchase and supply of goods according to administrative divisions and levels, into an open, multichannel system with fewer intermediate links, so that a criss-cross circulation network extending to all parts of the country will be formed to ensure the smooth flow of goods between town and country and the exchange of goods

between different regions, and the expansion of a single socialist market." Whether or not this single socialist market can be developed depends to a very large degree on whether or not we can remove the barriers between departments and regions, and get rid of regional blockades, and whether or not we can develop horizontal relations between enterprises. In the final analysis then, it depends on whether or not we can develop a socialist commodity economy.

A socialist market is unified, has no barriers, is open, and has no blockades. The planned economy implemented by socialist countries requires the establishment and development of a national unified market, the realization of socialist large-scale production, the rapid development of the forces of production, and the raising of economic results. However, for a long period in the past there has been quite serious problems in the economic system, barriers between departments, and regional blockades. Also horizontal economic relations had been cut off and competition excluded. This has protected backwardness, hindered technical progress, assisted duplication in construction, and affected the development of a single socialist market.

The present world is an open-type world. Modern markets are open-type markets. If any country, any area, or any department wishes to blockade itself, it will only result in placing itself in a passive, unfavorable position. Closing a country to outside intercourse cannot bring about modernization. The so-called open-type market is one where barriers between regions and departments have been removed, where economic alliances are formed with foreign nations and other provinces under the guidance of state policy, and economic relations with foreign countries have been opened up. Each nation, each area, and each department has its own superiorities, and also has its own disadvantages. Large enterprises have their own advantages and small enterprises also have their advantages. If areas produce those products they have advantages in producing and exchange them for those products they have difficulties in producing, then all sides will obtain benefits from commodity exchange. This is a way of handling things in accordance with economic laws. The United States is a technically advanced nation and, technically, there would be no problem for it to produce an airplane like the Boeing 747. But the United States and its large enterprises do not take on the whole thing themselves. The production of this airplane is arranged through the alliance of 1,500 large enterprises and 10,500 medium-sized and small enterprises in six countries. The turbine compressors produced by the Italian company Xin-bi-long [2450 1462 7127] are well-known. However, the component parts for their products are selected and purchased domestically and abroad. This method of using other's strong points to make up your own deficiencies is of advantage to both sides. The establishment of the Chongqing Industrial Products Trade Center has not only suited the need for bringing into play the central role of cities, but has also suited the needs of the changing situation and the commercial system reform. The trade center has made "no distinction on the basis of where goods come from" and "no distinction between people from public and private operations." Those who wish to buy come and buy, and those who wish to sell come and sell. It has adopted flexible, diversified forms and has directly linked up production, circulation, and consumption. It has reduced intermediate links, changed the former

method of allocating products according to administrative division and levels, and got rid of departmental and regional barriers, and regional blockades. It has also enlivened circulation, made the market more prosperous, and achieved quite good economic results. The propagation of the experiences of the Chongqing trade center will have great significance in developing our nation's single socialist market.

#### 4. The Key Lies in Separating Government From Enterprise Functions, Streamlining Administration, and Instituting Decentralization

The key to our nation's reform of the economic structure lies in streamlining administration at the various levels of government and expanding enterprise autonomy to gradually separate government from enterprise functions. It also lies in basically resolving the problem of barriers between departments and regions and regional blockades so as to develop horizontal economic relations and various forms of alliances. When government functions are not separated from enterprise functions, and management by the various levels of government department of enterprise's production operations is excessive and too rigid, it results in enterprises lacking independent operational autonomy. Actually, the enterprises become appendages of administrative organs, which inhibits the enthusiasm and motivation of the enterprises. It also affects the good management of those important matters the government departments should be concerning themselves with. The responsible departments, in order to maintain departmental and regional benefits, interfere in the enterprise's production activities, and this obstructs the development of horizontal economic relations which cut across departments and cut across regions.

For a long period, we have not separated government and enterprise functions and we have lumped together ownership rights and management rights. We have one-sidedly held that the state should manage that which it owns. The experience of practice has shown that ownership and management can, and should, be separated. They are two different categories. Thus, in separating government from enterprise functions, we must explicitly elaborate on the functions of state organs and clearly divide the functions and work of government and enterprises in economic activities. Appropriate enterprise management rights should really be handed down to the enterprises. In future, there should be, in principle, no direct operation or management of enterprises by central or local governments. The central and local governments should hand enterprises down to key cities and extricate themselves from the present situation where they manage specific production operations. They should, through economic regulatory measures and administrative legislation, stress grasping well principles and policies, overall planning, comprehensive balance, organized coordination, and supervisory service. The "Decision of the CPC Central Committee on Reform of the Economic Structure" pointed out: "The principal function of government organs in managing the economy should be: to formulate the strategy, plans, principles, and policies for economic and social development; work out plans for the exploitation of natural resources, for technological transformation, and for the development of intellectual resources; coordinate the development plans of localities, departments or enterprises, and the economic relations among them; arrange for the construction of key

projects, especially those in energy, transport, and the raw and semifinished materials industries; collect and disseminate economic information, learn to utilize economic means of regulation; work out economic regulations and ordinances and supervise their execution; appoint and remove cadres within a prescribed scope; administer matters related to external economic technological exchanges and cooperation; and so on." Government departments should go deep into practice, deep into the grass-roots, and examine and research in order to enliven services for enterprises. Following the daily advance of science and technology, and the development of the national economy, the fact that the economy cuts across departments and is comprehensive is becoming more obvious. An economic management system where management is carried out to a very specialized degree by departments is becoming increasingly unsuited to the demands of economic development. Specialized departments must develop toward being comprehensive departments. On the basis of the demands of streamlining administration, the number of organs must be reduced, the number of "mothers-in-law" must be reduced, and the number of levels must be reduced, while the degree of comprehensive management must be strengthened. The State Council has already approved that after the machine-building industry separates government and enterprise functions and enterprises are handed down, the Ministry of Machine-Building Industry will become a functional department managing the whole machine-building industry for the State Council. Its management function will change from directly managing enterprises to managing the whole industry and strengthening the administration of the industry. Under the guidance of state plans, it will arrange industry plans and regional plans. Through industry planning, it will arrange the division of work and coordination between regions. Thus it will overcome regional blockades and avert the situation of regions and cities becoming systems in themselves. Through regional planning it will overcome barriers between departments and avert the situation where departments become systems in themselves. The planning of enterprise reforms must serve the demands of industry planning and regional planning and avoid enterprises becoming "large and complete" or "small but complete." Industry planning, regional planning and enterprise reform planning must be linked up closely, so they form a complete set and create conditions for the strengthening of enterprises.

Enterprises will be handed down to the key cities but the key cities cannot continue to use old methods in managing the enterprises. They must change the irrational situation where the "head of the city manages the enterprises and the factory heads manage the society." A city's economic functions and central role must be differentiated from the economic functions of the city government itself. In the administration of enterprises, the cities must change from the present system of mainly relying on administrative methods and directly managing an enterprise's production, supply and sales activities, to where the raising of economic results is the target and economic measures are mainly used. On the basis of the inherent relationships within the economy, they should organize specialized coordination between enterprises and reorganize alliances and the rational use of natural resources. They must do well in promoting science and technology, culture and health, and environmental management as well as in building all sorts of public facilities. Also, they must strengthen comprehensive services by cities, provide convenient

production and circulation conditions, develop various types of horizontal relationships between enterprises, and promote the development of a socialist economy.

In decentralizing power, it must be directly handed down to enterprises, and should not be given to various levels of administrative departments. There should not be a great issue made over whether you should manage it or I should manage it. The decentralization of power and other reforms will enable the enterprises, under the guidance of state policies and plans to have the power: to determine production planning; to select and purchase those raw materials and component parts they require; to use their own funds; to lease or transfer unnecessary or surplus fixed assets; to appoint and dismiss middle-level cadres; to advertise for qualified personnel and to decide on how they should be used; to determine the internal organization of the enterprise; and to decide on coordination relationships with outsiders, and organize combined operations. In short, this is to enable the enterprises to become relatively independent commodity producers and managers. The streamlining of administration and the implementation of decentralization should be carried out in combination with the expansion of the powers of enterprises. At the same time, we should carry out appropriate reform of the planning system, the circulation system, the foreign trade system, the financial and taxation systems, and the labor wage systems, in order to strengthen the vitality of enterprises and further promote the development of the forces of production.

CSO: 4006/252

## NATIONAL POLICY AND ISSUES

### JINGJI YANJIU ON PLANNED COMMODITY ECONOMY

HK010825 Beijing JINGJI YANJIU in Chinese No. 11, 20 Nov 84 pp 22-26, 48

[Article by Hua Sheng [5478 3932], student of the Institute of Graduate Studies of the Chinese Academy of Social Sciences: "Switching to a Planned Commodity Economy"--October 1984 revised draft]

[Text] The implementation of the reform of the economic structure over the last few years has enabled us to gain a better understanding of the fact that the socialist economy is not a product economy but a planned commodity economy. The decision on the reform of the economic structure adopted at the 3d Plenary Session of the 12th CPC Central Committee will guide us in switching the economic structure onto the track of a planned commodity economy. In this article I will discuss my preliminary understanding of some of the questions regarding this switch.

#### I. Indications of An Invigorated Economy and Ways to Achieve It

The aim of the reform of the economic structure is to invigorate the economy. Invigorating the economy has always been regarded as something pertaining to microeconomics. Actually, economic prosperity here and now cannot have as a condition economic losses in another place at another time, and the enlivening of the microeconomy cannot be done at the cost of reducing macroeconomic results. Thus, invigorating the economy is, in a sense, a concept of viewing the situation as a whole. An invigorated economy should be indicated by automatic movement of the entire economic mechanism toward time saving and the full and rational use of all economic resources. In commodity production, the only way to attain or approach this goal is to respect the law of value in the macroeconomic sphere. All enterprises, without exception, should be tested by the unified criterion of socially-necessary labor time, and the best ones should be developed. For decades, we had been practicing the supply system in our economy under the influence of the "nominal commodity economy." The most salient feature of this system was that nominally we had commodities, currency, and economic accounting by enterprises, but in reality enterprises making big profits had to hand over more than those making small profits and those that incurred losses were subsidized. Commodities turned out by enterprises were products according to their worth (our military products had for a long time been priced on a cost plus 5 percent basis). As a result, large numbers of enterprises producing products of the same specifications and

quality could coexist and develop side by side at roughly the same speed in spite of the fact that their unit cost might differ by a hundred or several hundred percent. This phenomenon, which is quite inconceivable in commodity production, had for a long time been regarded as a familiar sight by us. In this economy which was essentially based on the supply system, the most important economic information, such as the accuracy and sensitivity of pricing signals, could only be of secondary significance and importance. Unless this problem is thoroughly resolved, we cannot begin to talk about the rational deployment of the essential factors of production and the raising of macroeconomic results. At present, people tend to pay more attention to doing away with egalitarianism in the distribution of articles for personal consumption. This, of course, is necessary. But, as far as promoting the growth of the forces of production is concerned, a more important issue is how we are going to do away with egalitarianism in economic life as a whole and eliminate the practice of "everybody eating from the same big pot." If this question is truly resolved, we can double the macroeconomic results simply by changing the deployment of resources, even if the existing conditions in respect of resources and the technological level remain unchanged. Of course, the meeting of this minimum requirement of commodity production means that we will have to effect fundamental changes in our strategic guiding ideology and forms of organization and leadership in the economic sphere. First, we must abolish the method of administrative leadership whereby authorities at the higher level issue numerous orders to enterprises, examine and approve set bases, and assess the rate of growth. It has been proven by practice that this time-honored method of assessing growth in accordance with a set base, whether in linked ratios or in fixed ratios, cannot avoid producing the malady of "flogging the fastest ox," that is, there would not be a clearcut criterion for meting out rewards and punishments. On the one hand, this method encourages the leading persons of some localities and enterprises to stick to the same outmoded ways for successive decades for the sake of attaining local and short-term increases of output value or profits and pay no attention to overall interests and the long-term needs of production. On the other hand, to encourage people to conceal their and production profit figure. It may even artificially restrict the production capacity, value production equipment to lie idle, and slow down business and capital turnover. The root of this phenomenon lies in the fact that the method of assessing growth in accordance with a set base is essentially an administrative method and not an economic one. Taking the present conditions as the basis and growth as the yardstick, it carries out linear comparison (that is, comparing with one's own past) and rejects lateral comparison. Thus, what it encourages and boosts may not necessarily be the reproduction of advanced enterprises of the same trade, and what it punishes and restricts may not necessarily be the backward ones. This runs counter to the principle of commodity production. In commodity production, lateral comparison within the same trade reigns supreme. Advanced enterprises and enterprises that work hard at forging ahead and developing new products and new lines of production (as long as they meet or create social needs) will become distinguished and will develop rapidly. Backward enterprises and enterprises that meet changes with constancy will have but one future, namely, to close down, stop production, merge with other units or switch to other lines of production, if they do not rise and work with

stamina. Like a silent order, the law of value constantly urges enterprises of various types to forge ahead and to innovate. With every enterprise striving to organize its own production and operation more economically, determining its layout and scale to its own best advantage, and developing its own external economic links, it is possible to effectively resist all kinds of administrative intervention and compulsion and promote the best deployment of production resources. Without the independent economic status of enterprises as commodity producers and the macroeconomic regulatory role of the law of value, no matter where we put the enterprises in relation to their respective regions and departments and no matter how good an economic organizational form and conducting mechanisms we have invented, things will degenerate once they are put into practice. Also the tendency of economic organizations becoming engrossed in administrative work and administrative organs becoming bureaucratic will be unavoidable. Second, we must build a socialist unified market and resolutely eradicate different forms of feudatories based on regions or departments. The history of economic development shows that the growth of social productivity bears the unmistakable trait of a wave-like advance both in terms of time and in terms of regional distribution. Any form of feudatory is bound to result in the suppressed, even development of productivity. Since the reform of the economic structure, some headway has been made in the flow of commodities and funds between regions. However, the above-mentioned method of assessing growth in accordance with a set base, the distribution of income, and the corresponding system of fixing prices have seriously weakened, even dispensed with, the economic superiority and competitiveness of the advanced localities and enterprises, thus greatly reducing the economic rationality of the flow of commodities and funds. For years, we have tried time and again to reduce and close up the gap between the advanced and the backward localities by dumping funds into localities and enterprises that yielded few profits or were running at a loss. Because we violated the objective laws of commodity production and the development of the forces of production, the advanced localities and enterprises suffered a loss of vitality while the backward localities and enterprises remained backward as before. If we allow some laborers to become better off earlier, we should also allow some localities and enterprises to become better off earlier. This is the inherent requirement of the unity of the yardstick of value and the wave-like growth of the forces of production. If this requirement is not met, duplicate trial-manufacturing, duplicate production, and duplicate importation of a low level, the intermingling of the good and the bad, as well as various types of big-and-complete or small-but-complete structures can hardly be avoided. Some localities are actually repeating mistakes of this sort although they are working under the banner of "quadrupling output value," "invigorating the economy" and "opening up." If we want to change this phenomenon, we should not allow central departments to set down rules as to who can produce what product at what time and place and who cannot. Instead, we should implement the principle of competition within the same trade and let the processes of selecting the best, sorting out categories, merging and elimination take place automatically in the course of commodity production. Of course, in a country as vast as ours, there are vast differences in the conditions of production. These differences have complicated, natural, and socio-historical reasons. In regard to some places, it is necessary to adopt necessary protective measures.

and special policies. However, none of these specific measures can be taken as a pretext to negate the general principle of commodity production. Historically, the course of development of the U.S. economy has been one of commencing in the eastern region and moving across to the west, and then having the western region promote the east. In Western Europe, a great number of major capitalist countries were able to overcome numerous contradictions and difficulties through organizing the "common market" to strengthen their economies. In a unified socialist country like China, even though there are myriad special reasons, what obstacle can stop us from organizing our economy in a way most suited to the growth of the forces of production? Of course, measured by the unified yardstick of socially-necessary labor time, a considerably large number of localities and enterprises will lose their competitiveness. Some will have to merge with others while a great number will have to blaze their own trail in the light of their characteristics and advantages of their own localities and units in regard to resources. Advanced localities and enterprises, on the other hand, will be able to develop swiftly in their localities or across local boundaries. This accords with the requirement of raising macroeconomic results and will enable our economy, including the economy in the backward localities, to undergo a fundamental change within the shortest time possible.

The switch from profit delivery to tax payment is called a directional step in the reform of the economic structure not only because it affirms in legal form the status of enterprises as relatively independent commodity producers in the economy and increases the incentive and vitality of and pressure on enterprises (this can also be achieved to varying degrees by other reform measures such as the assigning of profit quotas), but also because it establishes basic external conditions for enterprises to compete on an equal footing in commodity production. It also enables the enterprises to unhook themselves from the economic interests of localities and departments, thus paving the way for the smooth and large-scale development of commodity production in our country (this cannot be achieved by other reform measures). Of course, in order to achieve this, it is necessary to carry out relevant reforms in regard to planning, pricing, materials, and so on. Taking just the second step of the switch from profit delivery to tax payment for example. Due to the effects and restrictions of various factors, we still have not started levying taxes on funds. At the same time, regulatory taxes with different rates for different enterprises are still imposed on the large and medium-sized enterprises. This means that more thorough steps must be taken if we are to fulfill the mission of reforming the tax system. Seen from the internal trend of commodity production and the pricing policy, the negative role of product tax as a cost-determined tax [jia nei shui 0116 0355 4451] will gradually become more pronounced. In particular, this is because it has the basic weakness of producing distorted price forms in the artificial redistribution of resources. It may gradually yield its place to an excise tax for new products, and ultimately develop into a socialist taxation system with a funds tax, a resources tax, and an income tax constituting the main body.

## II. Grasp the Essential Links of the Entire Economic Chain

How should the state carry out macroeconomic control in the course of energetically developing commodity production and invigorating the economy? This question has aroused the concern of more and more people. In order to ensure that the state can carry out macroeconomic control, we must carefully study the objective conditions of the movement of the socialist economic mechanism and its development trends. Otherwise, we will not be able to grasp the decisive links of the economy as a whole. The following are some questions for preliminary consideration:

### 1. The scientific process of making macroeconomic policy decisions.

In modern times, the development trend of the forces of production was the strengthening of state intervention in the economy. One of the major differences between socialism and capitalism is that a socialist state has the important function of organizing the economy. The adoption or abolition of important economic policies and policy decisions regarding major fixed asset investments and other projects often affect and condition the stability and growth of the entire economy. They also determine the direction and result of the use of the state's major financial and production resources. In countries where economic management is relatively centralized, mistakes in major economic policy decisions often cause the entire economy to fall into a passive state or land in a predicament. We have learned several painful lessons of this nature in the past. One of the basic advantages of the socialist economic system over capitalism is that under the socialist system of public ownership, the economic interests of the people fundamentally coincide, which makes it possible to carry out unified planning and to rationally deploy and use the economic resources. However, whether or not this possibility can be turned into reality depends first of all on the correctness of the macroeconomic policy decisions of the planned economy. The development of commodity production and the extension of local and enterprise autonomy will result in the sharing of some of the responsibility and risk of making policy decisions and give us more room for maneuver. But they cannot replace or weaken the importance of macroeconomic policy decisions. Whether or not we have a scientific process of making macroeconomic policy decisions and have relevant consummate systems of responsibility in fact has a vital bearing on the major question of how the basic economic system of socialism acts on the forces of production. This question is one that cannot be bypassed in the reform of the economic structure.

### 2. Finance and credit are two major levers of macroeconomic control.

For a long time, people have had the habit of regarding finance and credit as a kind of logistic guarantee work. The fact is, such an evaluation is an oversight even if we are only speaking of the old system. Following the development of commodity production and the switch from controlled targets in terms of material objects to controlled targets in terms of value, the stability of finance and credit has become the basic economic safeguard for the smooth progress of the economic reform. Moreover, finance and credit will

themselves become major means of macroeconomic control. Financial balance is the key to the overall balance of the national economy. Revenues and expenditures reflect the economic policies of the whole country and determine the outline of the deployment of economic resources and the focus of the movement of the most flexible part of the national income. Besides total volumes, a lot can be done by the financial authorities in relation to the microeconomic aspects of macroeconomic regulation, such as the regulation of economic activities and the separation and coordination of economic interests. Here, I would like to discuss credit and banking in particular. Credit and banking play a very secondary role in traditional models. But, in actual fact, credit balance is the comprehensive reflection and ultimate defense line of the balance of total values in the national economy, because revenues, expenditures, and foreign exchange receipts and payments are all indicated on credit balance charts. Money supply directly controls the movement of the general price level and the contraction and expansion of the economy. Credit balance also has one distinctive feature: When budgeted or actual expenditures exceed revenues, obvious deficits will appear in account books. However, due to the technicalities of credit operations in the entire banking system, there will always be a balance between the use and the source of credit funds no matter how extensively the central bank expands its credits. It should be pointed out that up till now widespread attention has not been paid to the hidden possibility of a sudden imbalance in credits. It is probably for this reason that, although credits and money only played an insignificant role in the old system, we had our fill of suffering during the many economic upheavals when there was random issuance of bank notes to pay for construction. At present, the main thing to do in relation to credits is to study and master the appropriate scale for credits and, after the switch from target management [zhi biao guan li 2172 2871 4619 3810] to differential management [cha e guan li 1567 7345 4619 3810], to gope for ways for the central bank to flexibly and effectively extend its scale of credits. At the same time, we should truly run specialized banks and financial agencies dealing with trust and insurance as economic organizations, and thoroughly reform the phenomenon where banks have little decision-making power, too many loans are granted "at the order of leading cadres" or "with extra items added at every level," there are too few forms and means of financing, and interest rates are too rigid. When the due role of credit finance in the macroeconomy has been restored, the state's credit plan should be put on the agenda of the NPC and its standing committees and be examined and approved together with the national economic plan and state budget.

### 3. Investment in the expanded reproduction of fixed assets.

Views are quite divergent on this question. One view holds that the power to invest in expanded reproduction rests entirely with the state. Another view holds that while the main part of this power rests with the state, the enterprises should also have a share. Recently, some people have held that we should take the opening of stocks, securities and other monetary markets as the breakthrough point in financial reforms, basically delegate the power to invest in expanded reproduction to the enterprises, and let the finances be regulated by the market mechanism. This last view perhaps needs some

deliberation because what it advocates is a model entirely regulated by the market mechanism. It should be noted that after the state has abandoned the tedious method of material target management and administrative intervention in microeconomic activities, the socialist state has the opportunity as well as the capability to carry out scientific management of the expanded reproduction of fixed assets. This is the principal aspect and effective means of macroeconomic control by the state. It is also one of the major indications of the planned economy. According to the theory of controlled policy-making at different levels, policy-making power should be allocated on the basis of the capacity of an economic body to obtain relevant economic information and to provide feedback. Based on this theory, major investments that may affect the national economy should still be decided on by the state, while small investments involving a higher degree of specialized technology or flexibility and which are of a local nature should be decided on by the enterprises themselves. But most investments should be managed by the state with enterprises playing a part. The state bank is obviously the most suitable agent. With the fall in the status of the trading exchanges in the last hundred years, banks and other financial agencies have played an increasingly important role in making and controlling investments in fixed assets. This is probably not coincidental. It is rather blind of us to believe that the profit-seeking activities of share and bond buyers (whether enterprises or individuals) that have but a small grasp of economic information can lead to the rational flow of essential production factors. Besides, seen from the internal law of the reproduction of fixed assets, there is a gap between the flow of money and funds and the flow of actual goods back to fixed asset reproduction, and there exists a progressive or regressive transfer relationship between the reproduction of fixed assets and the reproduction of the means of production. Thus, in the reproduction of fixed assets, the demand to produce a material balance in the natural system is greater than that for the production of ordinary commodities. This is why, in the mode of production dominated by anarchy of social production, it is one of the deep economic roots of periodic economic crises. We should draw inspiration from this. Of course, this does not preclude the possibility and necessity of using various flexible forms of financing from the West. If foreign capital can be introduced, why not a stock and securities exchange? The important thing is that we must distinguish this kind of introduction and use from the dominant form of our economy. Revenue from investment should mainly be used by the state as the lever to eliminate external factors in the operations of enterprises and to regulate the relationships between various interests. It should not become the long-term principal source of income of the overwhelming majority of enterprises and individuals. It is completely wrong to negate the diversified forms of commodity production for fear of producing and enlarging differences in income. However, it is equally unwarranted and incorrect to describe earnings from commodity production and operations as income from labor pure and simple. In a socialist society, it is impossible not to appropriately restrict nonlabor income. Neither can such a society allow differences between people's nonconsumer goods property, that is, property related to the means of production, to grow unrestrictedly. This is by no means due to some abstract principle of fairness, but is mainly due to the need to ensure the stability of the socialist economic structure and to ultimately protect and

promote the growth of the forces of production. A summary of these factors shows that with conditions as they are in our country, a more promising and dynamic way out is for the state to carry out flexible and multiform investment management through the banks.

#### 4. The balancing of the supply of and demand for major products.

Macroeconomic control primarily means grasping the balance of total values in the national economy (this is also being studied in capitalist countries). In addition to investment management, the balance of material objects, that is, products, is also something over which a socialist state must exercise some control. By control, of course we do not mean that the state must plan and direct the production, exchange, and coordination of every so-called important product. Rather, it must do a good job of balancing the supply of and demand for major products, just like leading production departments get rid of the ties which directly bind them to several subordinate enterprises, so as to truly implement departmental and trade guidance. It is not difficult to foresee that following the relaxation of pricing, market speculation factors may grow. In order to ensure the smooth progress of production and exchange and the stability of the people's livelihood, it is necessary for the state to balance the supply of and demand for major products. This kind of balance requires ample and timely information from the state, the strong backing of funds, as well as necessary administrative intervention. It is to be carried out by economic organizations. If we can do well in this respect, we will not only be able to increase profits and accumulation for the state, but will also be able to bring incalculable direct benefits to the entire economy. When a good job has been done in balancing the supply of and demand for major products, more flexible economic policies can be introduced and the entire economy can be further invigorated. Actually, this was done within certain limits and produced remarkable results during the initial postliberation period. The problem now is to suit our ideology and work to new conditions and new situations.

### III. The Forms of the Planning and Pricing Control Systems To Be Realized

The planning system is the main body of the economic management structure. It is quite natural that the commencement of the reform of the economic structure should produce a great impact on the planning system. The reform of the planning system can hardly succeed if we merely carry out repair work on the basis of the existing method of management through targets and mandatory planning. The planned economy is not a supply-system economy. It must fundamentally shift its foothold to commodity production and the law of value and take guidance planning as the basic form of planning.

The present method of mandatory planning must be put in order, trimmed down, and consolidated. Originally, mandatory planning was the product of the linking of commerce and the unified purchasing and distribution of goods and materials with fixed prices. It played a fairly important role in the past. At present, the policies of unified purchasing and distribution of goods and materials and unified prices have been gradually relaxed, although there is

still a multitude of mandatory targets (not merely those assigned by planning departments). What is more, extra items are added at various levels in the local plans. Some departments pay no attention to the supplies of raw materials, the sales of products, or price differentials when they assign planned targets to the lower levels. Thus, all try to have a hand in the production of goods in short supply while the production of goods in excess supply is left to take its own course. It is very difficult to tell which level or department is actually transmitting "state plans." Thus, in reforming the planning system, we must first put things in order. Only the state planning department should be allowed to assign mandatory targets to enterprises. Other departments can only act according to regulations. Second, we must trim down the scale of mandatory planning. Items that cannot and should not be put under state monopoly should not be so classified. Third, we must consolidate mandatory planning. In assigning mandatory targets, there must be guarantees for the supply of crucial raw materials, sales of products, and the making good of losses incurred from sales. If a department cannot guarantee these, then it is not qualified to assign mandatory targets. The seriousness of mandatory planning will be undermined if it is devoid of reasoning and content and leaves too many loopholes.

Mandatory planning of course can and must manifest the requirements of the law of value. But this does not change its property as an administrative binding force (administrative means). It is not the general form of the socialist planned economy. In that case, should mandatory planning still play a role and show vitality in the reformed economic model? The answer is positive. There are three reasons for this. 1) The imperfections of the economic means. Due to the mutual conditioning of economic activities and the seasonal sluggishness of economic information feedback, as well as the possibility of contradictions and conflicts arising in the economic interests of policy-making bodies for economic activities at different levels, mandatory planning can play a unique regulatory role. 2) In balancing the supply of and demand for major products, we need to rely on mandatory planning, or take mandatory planning as a reserve means that carries a deterring force. Of course, the form of mandatory planning can be flexible. For example, we may have assigned supplies, processing, or placing of orders. If we abandon mandatory planning, we will weaken the power of the state to control things. 3) In commodity production, there are two contradictory internal trends, one being the promotion of competition, the other being the development of monopolies. Not even socialist commodity production can rid itself of this dual trend. In places where monopolies still exist, the role played by the law of value will be deforedm. Thus, even if we look at it from an unadulterated viewpoint of commodity production, it is economically both rational and necessary for the state, as the supreme owner, to exercise intervention by means of mandatory planning in those enterprises that have a monopoly in the trade.

It can thus be seen that the traditional concept that mandatory planning must "encompass important products that have a vital bearing on the national economy and the people's livelihood" needs amendment. The development of the modern forces of production has caused social products to form a mutually dependent material system. History has already demonstrated to us that if we

go on making plans around important products, we will end up having the state control the production and sales of the overwhelming majority of products. As a result of this control, products become fewer and fewer in number and more and more rigid and monotonous. As has already been pointed out, important products are not merely a qualitative concept but also a quantitative concept, and whatever the product, it is only within a given quantitative scope that it can affect the national economy and the people's livelihood. Actually, the essence of the planned economy lies not in tedious instructions but in consciously maintaining the balance of production proportions and the balance between the supply of and demand for major products. The proportion of mandatory planning is not fixed. It is chiefly determined by the needs of macroeconomic control and the comparison of the relative macroeconomic and microeconomic benefits.

The reform of pricing should now be put on the agenda. Unless pricing is reformed, we have no way of conducting the reform of the economic structure in depth. The question is: How should it be reformed? If we pick one morning to announce a set of prices that fully conforms with value or its changed form, we are merely carrying out readjustment, not reform, even if such a thing can be done. This is because after a few days, the prices will no longer conform with value. Market prices fluctuating around value or its changed form is an objective law of the commodity economy. The basic idea of the reform of pricing is to recognize value as the law of prices and to recognize the changesability of prices. No matter how carefully worked out our theoretical prices or most favored planned prices are, the value of this kind of pricing is quite dubious if these prices remain unchanged for a long time and if market prices do not fluctuate around them.

According to the requirement of the overall reform of the economic structure, pricing reform can only develop in the direction of greater flexibility. Floating prices and market prices should be made the universal forms of pricing and the scope covered by fixed prices should be gradually reduced. A pricing system that enables us to make the best use of resources can only be attained through appropriately levying cost-determined taxes, not through designing and enforcing planned prices. After the reform, the model may be one in which the scope covered by market prices will be further expanded, with floating prices constituting the principal form as well as the center of pricing control. The ceiling, lower limit, or median line of floating prices should be readjusted from time to time according to the long-term movement of price floatation. In principle, prices should not be allowed to remain on the highest point of the float for a long time because this will mean losing the elasticity and regulatory role of floating prices. In correspondence with mandatory planning, fixed prices will continue to exist. However, in order to keep fixed prices from playing a negative role, we should make it legal for commodities with fixed price tags to keep market or floating prices at the same time. In principle, this is by no means contradictory to the unified nature of the yardstick of value. This is because the unified nature of the yardstick of value is intended for one and the same market, where fixed prices are strictly linked with mandatory planning. Actually, mandatory planning carves up the market and gives rise to the possibility of the

coexistence of dual prices. In real life, whether or not dual prices will give rise to contradictions depends on their disparity. The greater the disparity, the greater the friction. Thus, fixed prices must also be readjusted from time to time in accordance with the steady movement of the floating or market price of the same commodity. As long as we can do our best to reflect the requirements of the law of value in our fixed prices, we can reduce friction to the maximum and achieve the macroeconomic result of having a stable yardstick of value.

CSO: 4006/252

## NATIONAL POLICY AND ISSUES

### JINGJI YANJIU ON REFORM IN LIGHT INDUSTRY

HK010900 Beijing JINGJI YANJIU in Chinese No. 11, 20 Nov 84 pp 43-48

[Article by Ji Long [1323 7893] of the Ministry of Light Industry: "Contracting and Reform in Collective Enterprises of the Light Industry"--revised September 1984]

#### [Text] A Creative Undertaking of Great Significance

Among various urban economic reforms, the reform of the light industry in the collective economy started relatively early. Since the 3d Plenary Session of the 11th CPC Central Committee, under the leadership and assistance of the local party committees, governments, and responsible departments, the collective light industrial enterprises of Jilin, Liaoning, Henan, Hunan, Hubei, and other areas have implemented the principle of "readjusting, restructuring, consolidating, and improving." They have undertaken various reforms based on "assuming sole responsibility for profits and losses, undertaking sole operation, democratic management, and distribution according to work done," and marked results have been achieved. On this basis, the reform of collective light industrial enterprises has further developed in depth since 1983 and various contractual systems of responsibility for operations have been extensively developed. According to statistics, around 70 percent of all collective light industrial enterprises in our country were practicing various forms of contracting in June 1984.

The practice of contractual systems of responsibility for operations by collective light industrial enterprises is a major reform which proceeds from the characteristics of collective industrial enterprises in towns and cities, which incorporates the methods of the 1950's in running handicraft cooperatives, and which takes as reference point the experience of agricultural responsibility systems whereby contracts are linked to output. These contractual responsibility systems are basic systems of operation and management whereby, under the guidance of state planning and with the enhancement of economic results as the basis, the interests of the state, the collective, and the individual are closely integrated, and the economic responsibility, economic powers, and economic interests of the enterprises are also closely integrated. They represent an in-depth development of economic responsibility systems among collective industrial enterprises in towns and cities under the current new situation.

Contractual responsibility systems assume many varied forms and include many methods. There are roughly two categories of contractual responsibility systems: The first category features external contracting by the enterprises; that is, by contracting, the enterprise (or factory director) assumes responsibility to higher-level departments for the guaranteed fulfillment of certain economic targets, with rewards for fulfillment or overfulfillment and penalties for underfulfillment. The second category features internal contracting within the enterprises; that is, contracting is undertaken at various levels ranging from the enterprise and the workshops to the teams and groups or even to individuals in some cases. The contracts specify the economic targets that must be fulfilled within a certain time period and also the corresponding rewards and penalties. Moreover, the enterprises also undertake many varieties of contracting involving single specialized work projects (for example, contracting for capital construction projects, for supply and marketing, for developing new products, and so on). The specific methods are suited to the conditions of various factories, are flexible and varied, and are not limited to any single fixed pattern.

Over the period of a year or so, marked results have been achieved in the reforms of the collective light industrial enterprises, which center on contracting. In 1983, the collective light industrial enterprises encountered many difficulties such as decreases in state-planned output targets, decreases in assigned export tasks, shortages in the supply of energy resources, materials, and raw materials, and so on. However, thanks to the undertaking of contracting and reforms, the practice of "eating from the same big pot" has been eradicated, the enthusiasm of the enterprises and their workers and staff has been mobilized, the enterprises have become enthusiastic about doing a good job in operations and have tapped their own potential, a good situation rarely seen in past years has appeared, and both output and economic results have been greatly boosted. According to statistics on more than 38,000 collective enterprises belonging to the second light industrial system, from 1982 to 1983, output value increased by 6.85 percent and profits increased by 13.16 percent. Thus the improvement of economic results far surpassed output growth. This rarely occurred previously. For the January to July period of this year, the output value created by the collective enterprises belonging to the second light industrial system was 10.39 percent greater, while profits were 11.73 percent greater than in the same period last year. For the industrial enterprises, whether a reform measure is correct or not ultimately depends on whether it can promote the development of production and the enhancement of economic results and whether it can bring about improved satisfaction of the needs of the state and the people. In short, it depends on whether it can bring about the creation of the greatest amount of material wealth for society's sake. The changes occurring since last year in the collective light industrial enterprises have incontrovertibly demonstrated that contracting surely and quickly brings about success and flexibility and that the effect of undertaking contracting differs greatly from the effect of not doing so. The contractual systems of responsibility for operations practiced by the collective light industrial enterprises are absolutely correct in orientation and approach.

At the 12th CPC Congress, Comrade Hu Yaobang said in a report that in "adopting an enthusiastic attitude and conscientiously summing up experience, we should seek and create a set of specific systems and methods which will be compatible with the characteristics of the industrial and commercial enterprises, which will allow the centralized leadership of the state to be ensured, and which can bring the enthusiasm of the enterprises and their workers and staff into play." Judging from the experience of the collective light industrial enterprises, we can say that we have begun to discover a set of systems and methods suited to our own characteristics.

The contractual systems of responsibility for operations accord with the objective needs of development of the collective economy, accord with the level of development of the productive forces and the level of consciousness of the masses at the present stage, and are welcomed and endorsed by the people. Therefore, in developing light industry in the collective economy sector, continuing to develop, stabilize, and perfect the contractual systems of responsibility for operations is not an expedient measure, but is an important measure of great strategic significance.

Developing these systems means extending the scope of contracting. Numerous facts have demonstrated that contractual responsibility system, in their many varied forms, are suitable for both small enterprises and relatively large ones, for both deficit-incurring enterprises and profit-making ones, and for both enterprises run by prefectures or counties and those in large or medium-sized cities. In an enterprise, contracting must be applied not only to workers undertaking production on the frontline, but also to personnel working on the second line in workshops in the rear, administrative offices, and technical offices.

Stabilizing contractual systems of responsibility for operations means maintaining the continuity of contracting and guarding against relapses, so that these systems can enjoy steady and healthy development.

Perfecting these systems means that we must continue to augment and improve contracting systems and methods. We must undertake contracting at many levels, in many forms, and by many means, so that the contractual systems of responsibility for operations can become more compatible with the actual conditions of the enterprises, the relationship between various parties can be satisfactorily handled, the enthusiasm of various parties can be mobilized, and the development of production and the enhancement of results can be more satisfactorily promoted.

The successful development, stabilization, and perfecting of contractual systems of responsibility for operations depends on the support and help given by leading bodies at various levels for overcoming various ideological and practical obstacles. At present we must particularly stress the sober nature of contracts. Once a contract is signed, it must be safeguarded by the laws of the state and must not be abrogated at will; we must win the people's confidence. This is the key to maintaining the steady development of the contractual responsibility systems. In 1983 in some localities, some contracts

were not fulfilled and the enthusiasm of the masses was dampened; the resulting negative influences have not yet been completely eliminated. The lesson of this experience is very profound.

In practicing contractual systems of responsibility for operations, we must be both vigorous and steadfast and must pay attention to solving the problems arising in contracting. In setting the basic numerical norms related to contracting as well as the proportions governing the distribution of above-norm bonuses, we must give due consideration to the interests of the state, the collective, and the individual. These norms and proportions must be both up to date and rational. In other words, not only must fulfillment of state plans be ensured and must the enterprises' potentials be fully tapped, but it must be possible to surpass these norms through hard work, and the continual raising of norms year after year, resulting in "penalizing the more capable, like flogging those cows which work fast," must be prevented. Regarding the forms of contracting, we must guard against depending on some mechanical formulas which categorize things sweepingly like "cutting something into two clear halves with a knife." At present we must stress internal contracting. External contracting for the enterprises can naturally play a positive role in strengthening the sense of responsibility of the leaders of the enterprises; in the satisfactory handling of the relationship between the state, the collective, and the individual; and in strengthening the managing and guiding of the enterprises by the state. However, internal contracting within the enterprises is the basis of the contractual responsibility systems. Therefore, those enterprises which have merely undertaken external contracting should vigorously grasp the undertaking of internal contracting. In undertaking contracting, the enterprises can proceed from reality; appropriately delimit small accounting units; assign powers to various levels, thus "loosening the fetters binding them," permit the accounting units to undertake operations on their own; and let each of these units assume responsibility for supply, production, and marketing. Through internal contracting, the assumption of responsibility for profits and losses by the enterprise must gradually give way to the assumption of responsibility by the workshops, teams, groups, and even every worker and staff member, so that the assumption of responsibility for profits and losses on a full scale by the whole staff can be achieved. At present, various categories of contracting for single projects are vigorously developing among the enterprises. Shenyang, Wuhan, and other localities have developed contracting for the entire supply-production-marketing chain comprising information gathering, designing, the purchase of materials, manufacturing, and marketing. These developments will greatly augment the scope of the contractual responsibility systems and will promote the continuous progress of these systems.

Satisfactorily handling distribution relations and giving due consideration to the interests of the state, the collective, and the individual constitute the crucial question in satisfactorily developing contractual responsibility systems. With the practicing of contracting and the development of production, profits have increased. The enterprises should first pay taxes according to regulations so that the state's fiscal revenue can be safeguarded. In addition, the distribution relation between the collective and

the individual must be satisfactorily handled. This is the crucial factor determining whether the relation between an enterprise's long-term interests and its immediate interests, as well as the relation between the interests of the collective and those of the individual, can be satisfactorily handled. We must pay attention to guarding against the erroneous tendency of retaining inadequate sums for us as collective accumulation funds, leading to "the individual getting fat and the collective becoming lean." If we do not do so, the collective economy will not have adequate stamina in development, expanded reproduction cannot occur, and the interests of the state and the individual will be adversely affected. Moreover, we must also beware of the tendency of overly rigidly limiting the individual's income and not paying attention to improving the livelihood of the workers and staff members. When output and results have improved by virtue of contracting, we must enable the workers and staff members to be correspondingly and reasonably benefited.

Must we pursue the policy of making the people become well off in dealing with the collective light industrial enterprises? This is a question about which everyone is concerned and which is relatively frequently discussed. As early as in 1978, Comrade Deng Xiaoping said that we must allow "some enterprises, some workers, and some peasants to earn a higher income or improve in livelihood before others, through hard work which yields great results. When some people improve in livelihood before others, an enormous exemplary effect will inevitably occur. The neighbors will be influenced, other localities will be developed, and people in other units will emulate them. Thus, the entire national economy will continuously develop in a wave-like manner, and people of all nationalities in our country will relatively quickly become well off." ("Selections from Deng Xiaoping": "Emancipate Our Mind, Seek Truth From Facts, Become United, and Look Forward," p 142) This idea is wholly applicable to our existing collective light industrial enterprises. With the institution of contractual responsibility systems, the income of the workers and staff members must be linked to the economic results achieved by the enterprise and the results of their own personal labor, rising and falling like a boat with the tide. An enterprise's earnings will be high if it achieves good results and low if it achieves poor results. The income of a worker or staff member must vary directly with his achievements in work. Regarding the relationship between the individual and the state or the collective, if the proportion of labor costs in the product value does not increase and if the increase in profits and taxes exceeds the increase in wages and bonuses, the individual's income should be allowed to appropriately increase, without being limited by any ceilings or floors. Differences in the wages and remuneration of workers and staff members should be allowed to be widened. These measures are totally compatible with principles of socialist materialist interests.

#### Grasp Contracting, Promote Reforms

The satisfactory handling of the relationship between contractual responsibility systems and other reforms is a very important question in the realm of guiding principles. Contractual responsibility systems represent a breakthrough in our reforms and the core of our current reforms. Contracting gives

impetus to other reforms, which in turn help consolidate and augment contracting. A dialectical relationship of each one promoting and supplementing the other exists between contracting and other reforms, with contracting as the main aspect. With the development of contractual responsibility systems as the core and with the solution of key problems such as "eating from the same big pot" and clinging to the "iron rice bowl" as the goal, the light industrial departments of Hunan have had the good experience of "8 possible things and 10 systems." The "8 possible things" mean that cadres can be promoted and can be demoted, workers can be employed and can be dismissed, wages can rise and can fall, and bonuses and welfare benefits can increase and can decrease. The "10 systems" are the economic contracts system, the democratic election system, the system whereby the factory director assumes responsibility, the system of allowances for certain posts and duties, the variable wage system, the system of employment and appointment on a preferential basis, the contract workers system, the system of buying shares with eligibility for receiving dividends, the system of internal production of commodities, and the system of rigorously meted out penalties and rewards. The "8 possible things" represent the principles and the orientation, while the "10 systems" are the means and methods. This way of closely integrating contractual responsibility systems with other reforms to form a complete chain signifies the continuous perfecting, improving, and maturing of contractual responsibility systems. Therefore, whereas it is naturally wrong to sever contracting from other reforms and to replace other reforms by contracting, one will commit an even more serious mistake if one disregards the prominent role of contractual responsibility systems in eradicating the malpractice of "eating from the same big pot," in mobilizing people's enthusiasm, and so on, and if one thus refrains from fully developing the enormous role of contractual responsibility systems in developing other reforms.

In the current reforms of the collective light industrial enterprises, we should pay attention to the following several questions:

First, powers must be returned to the collective enterprises.

Collective light industrial enterprises constitute an economy where the working masses exercise collective ownership. In a collective enterprise, the workers should have the power to own, control, and use the means of production. This power calls for operation by the enterprise on its own. Under the precondition that a collective light industrial enterprise subjects itself to the guidance of state planning, outsiders must not be allowed to take on the enterprise's internal affairs which ought to be handled by the enterprise itself, because any such action of the outsiders infringes on the collective enterprise's right to act on its own and deprives it of its right to own the means of production. A necessary condition for developing contractual responsibility systems is that the collective enterprises should be able to carry out operations on their own. With the development of contractual responsibility systems, the demand for returning powers to the enterprises so that they can carry out operations on their own has become increasingly strong. This is an inevitable result of the in-depth development of reforms. For many years in the past, the collective enterprises have been subjected to overly

extensive and rigid control. Some powers that should be exercised by the enterprises have been inappropriately centralized in the hands of higher authorities. All matters must be finally approved by the higher-level departments in charge. The collective enterprises' initiative has been stifled and they have become appendages of the departments in charge of them. Thus, the enthusiasm and initiative of the enterprises and their workers and staff have not been brought into play and the development of the enterprises has been affected. Therefore, the leading bodies must gradually return the powers over ownership of the means of production, over operations and management, over labor personnel affairs, and so on, to the enterprise. This will be an important step in the reform of the collective light industrial enterprises. Only thus can the enterprises effectively manage production, operations, distribution, and so on, so that the economic interests of the collective enterprises and their workers and staff can be fully realized and things can be done in line with the nature and characteristics of the collective economy.

Concurrently with the return of powers to the collective enterprises, the system of leadership over the collective enterprises and the system of managing them should be subjected to corresponding reforms. Only thus can the genuine return of powers to the collective enterprises be guaranteed by organizational means. The trend of future development is that the leading departments should, according to the principle of separating administrative authorities from enterprise authorities, shift the focus of work to overall planning, the providing of ideological guidance and guidance by policies, economic legislation, the popularization of science and technology, the dissemination of economic information, in-depth investigation and study, supervision and inspection, and the grasping of typical examples. They should take responsibility for overall planning, coordination, supervision, and providing services.

Second, the collective enterprises' characteristic of being production and operations enterprises must be restored and developed.

The majority of products produced by the collective light industrial enterprises are daily consumer goods, articles of handicrafts and art, and art, and other minor commodities. These products are very easily affected by market changes. Thus it is necessary for the collective enterprises to satisfactorily undertake both production and operations. The institution of contractual responsibility system has helped mobilize the enthusiasm of the enterprises and their workers and staff. Thus it is inevitably necessary for the enterprises to improve in flexibility, vitality, and economic results. With the reform of our country's economic structure, socialist competition will extensively develop. To win amid competition, the presently simple production-type enterprises must change back into or be converted into production and operations enterprises. The collective enterprises must develop their own characteristics, such as the integration of a manufacturing plant and retail outlet within the same premises, the integration of production with marketing, flexibility and ease of effecting changes, and a high degree of adaptability. Thus, improving enterprises operations and commodity circulation is one of the major reform measures.

Judging from the experience of various localities, the primary question in strengthening operations is the formation and perfecting of inter-enterprise circulation networks. Joint economic organizations formed by collective enterprises (like associations of handicraft producers) should undertake the organization of these networks. It is necessary to establish and perfect central agencies for these networks, namely, supply and marketing managerial agencies of those associations (or supply and marketing companies). In some localities where conditions are ripe, product exhibition and marketing centers, wholesale stores, or even permanent trade centers should be established. Moreover, an information network must be established. In this era of new technological progress, "information is wealth," and we must pay attention to the value of information and develop the role of information. The departments in charge of light industry should strengthen commercial information agencies and statistical work related to marketing. They should establish and perfect systems for the exchange of commercial information and other information. They should also develop many varied forms of domestic and external exchange of information. Furthermore, according to requirements for producing many varieties of products in smaller quantities, the production pattern of the enterprises must be subjected to reforms and labor organization must be made rational through readjustment. The enterprises must pay attention to market forecasting and consumption surveys. With the satisfaction of consumer needs as their goal, the enterprises must strive for survival by improving quality and strive for development by improving product variety and packaging. Only thus can the enterprises quickly change their products, enjoy problem free capital-funds turnover, and produce many varieties of low price products at low costs and with good results.

Third, various forms of economic integration must be vigorously developed.

With the advance in the level of development and the degree of socialization of the productive forces, there appears an inevitably trend of development: the old convention of requiring enterprises to be "large and complete" or "small and complete" is smashed, and many forms of economic integration are launched. To win amid intense market competition, the collective light industrial enterprises must vigorously develop horizontal economic integration and organize various categories of economic combines by employing economic methods, by developing their good points, and by making good their shortcomings. They must take this as an important reform for enlivening production and operations.

The objects of integration for the collective light industrial enterprises are many and diverse. They can be integrated with military-industry, heavy-industry, or scientific research departments; with enterprises in neighboring hoods, rural areas, or small towns; or with light industrial enterprises in their own localities or other localities. There can be many varied forms of integration: a production unit can be integrated with another production unit to develop new products or extend the capacity for producing products in short supply; a production unit can be integrated with a marketing unit to open up markets for a product; a production unit can be integrated with a supply agency to expand the source of supply or raw or semifinished materials through

compensation trade; new cooperative organizations can be developed through joint efforts; scientific research departments can jointly tackle key problems and use or transfer technology at a cost; and so on. All forms of integration adopted must have the enterprises' economic results as the common starting point and as the ultimate goal. In addition, various parties must earnestly assist and enhance the interests of one another so that all of them can be benefited.

Fourth, democratic management and the system of the factory director's responsibility must be practiced.

The leadership system of an enterprise must be compatible with the nature of the system of ownership under which it exists. The means of production in a collective light industrial enterprise are collectively owned by the working masses. The workers and staff members of the enterprise are both workers doing production work and owners of the enterprise. Democratic management should be a basic characteristic of a collective enterprise. Only if democratic management is fully realized can the workers surely and genuinely control those means of production and products which are commonly owned by the collective, can the workers' material interests be surely and directly linked to the fruits of their labor, and can the workers' status as masters be realized. In a collective enterprise, the general assembly or congress of workers and staff members should be an organ of power. In the enterprise, the election of principal leading cadres and major matters concerning production and operations should be discussed and determined by the general assembly or congress of workers and staff members.

The collective light industrial enterprises must practice the system of the factory director's responsibility. The factory director must exercise overall command over all routine production and operations activities of the enterprise. In the enterprises, the situation of slack management or unclear assignment of duties must be prevented or ended. However, in a collective enterprise, the practicing of the system of the factory director's responsibility must be based on democratic management. Not only must the factory director genuinely exercise overall command over the routine production and operations activities of the enterprise, but the workers must genuinely take part in management and act as leaders.

Fifth, qualified personnel must be well selected, trained, and used.

If the reform work of the collective light industrial enterprises, which is centered on contractual responsibility systems, is to develop in depth, and if the enterprises are to be well run, the personnel system must be subjected to reforms and qualified personnel must be correctly selected, trained, and used. Only thus can the collective light industrial enterprises basically solve the problem of a lack of qualified personnel and the problem of poor quality cadres. The daring appointment of qualified management and technological personnel who have the drive to undertake reforms and bring forth new ideas is the basic question concerning whether the collective enterprises can assimilate the fruits of modern science and technology, improve in quality,

and achieve development. The qualified personnel problem can be solved in the following four ways: 1) Local qualified personnel are selected and appointed. Among the several million workers and staff members of the collective light industrial enterprises, there are large numbers of outstanding qualified personnel. Those who possess a strong sense of devotion to work, professional knowledge, vigor, and the drive to bring forth new ideas should be selected and appointed to leading posts. In the selection and appointment of qualified personnel, the old ideas and conventions of determining seniority by length of service and stressing things of the past at the expense of the current reality must be eradicated and the barriers between workers and cadres and between ownership by the whole people and ownership by the collective must be smashed. 2) Capable personnel must be recruited through publicity drives. The collective enterprises must openly make known to society the invitation of applications for posts from capable and knowledgeable people and must thus recruit qualified personnel. This is of particularly great importance in changing the situation of a severe shortage of qualified technical personnel among the collective enterprises. With the rising of the status of the collective economy in the national economy and with the implementation, in various localities, of policies and measures on the employment of qualified personnel through inviting applications, the collective enterprises will be able to employ larger numbers of qualified personnel 3) Fixed-orientation training can be undertaken. On top of providing general training for workers and staff members, the collective enterprises can select some good workers and staff members and send them to various institutes of higher learning and part-time universities for training, so that a reserve force of qualified personnel can be made available. Attention must be paid to investment in intellectual resources so that the development of the enterprises can be guaranteed. 4) Qualified personnel can be made available in advance. The collective enterprises should vigorously take the initiative to apply to the state for employing in advance graduates from universities, secondary schools, and technical schools. Moreover, they can be linked to related institutes and schools, requesting institutes of higher learning to train qualified personnel on their behalf. They can also run their own universities for workers and staff members of various categories of secondary or technical schools so as to train qualified personnel.

Finally, while contracting and reforms undertaken by the collective light industrial enterprises must be subjected to study, attention must also be paid to technological transformation so that reforms can be closely integrated with transformation. This cannot be neglected.

The collective light industrial enterprises have a weak foundation and lack resources. Their equipment is generally old and their technology backward. They are far from able to cope with the new situation arising from competition on the domestic market and challenges of new global technological revolution. Therefore, aside from undertaking reforms, they should also pay attention to technological progress and scientific management, integrating reforms, technological transformation, and modernization of management into an organic whole. Thus, their quality can be upgraded and improved on an overall scale, their economic results can be improved, and they can acquire ample "stamina" in the development of production.

At present, in view of the actual conditions of the collective light industrial enterprises, the principal categories of machinery and equipment which should undergo transformation are those which are backward and obsolete, which yield poor results, and which consume large quantities of energy resources. Appropriate categories of technology should be vigorously used so that manual operation and semi-mechanized operation can give way to fully mechanized and automatic operation. In undertaking technological transformation, the collective enterprises can adopt various methods: They can implement minor changes and transformation measures proposed by the masses; they can adopt our country's advanced technology to renew equipment; and if conditions are ripe, they can even boldly import advanced technology and equipment appropriate for them, thus quickening the development of technological transformation.

In recent years there have been successive major breakthroughs in the theory and practice of enterprise management. The trend is toward more scientific management. The collective light industrial enterprises must also keep pace with these developments. They must use a series of modern management methods such as "target cost management," "value engineering," "overall quality management," and so on to replace the backward management methods of the past which were characteristic of handicraft workshops. Thus, the management of the collective enterprises can become more scientific and democratic.

The reform of the collective light industrial enterprises, which centers on contractual responsibility systems, is an important part of the entire reform of our economic structure. It produces a positive effect on the entire urban reform. In turn, reforms in other sectors will also help advance it. Reforms will more quickly develop in depth when the reform work of each sector promotes that all other sectors. The development of reforms will inevitably give rise to new problems. We should continue to study and discuss these problems.

CSO: 4006/252

## NATIONAL POLICY AND ISSUES

### PRC JOURNAL ON ECONOMIC REFORM, COMMODITY ECONOMY

HK020620 Beijing JINGJI YANJIU in Chinese No. 11, 20 Nov 84 pp 17-21

[Article by Yang Chengxun [2799 2110 6064] of the Economic Research Institute Under the Henan Provincial Academy of Social Sciences: "The Reform of the Economic Structure Should Be Based On a Developed Socialist Commodity Economy"]

[Text] The Decision of the 3d Plenary Session of the 12th CPC Central Committee on Reform of the economic structure clearly pointed out that a socialist economy is a planned commodity economy. This scientific thesis is an important line we must grasp in our reform of the economic structure. As I understand it, a planned commodity economy is a commodity economy which has public ownership as its base, guidance through a planned economy, and distribution according to work. This type of commodity economy is not a capitalist commodity economy; even less is it a simple commodity economy. It is a developed socialist commodity economy. By adhering to the laws of a developed socialist commodity economy, we can cause our reform of the economic structure to develop in the correct direction.

#### Enterprises Should Become Independent Commodity Producing Units and Operators Within the Planned Economy

Invigorating enterprises, with the cities as the focal point, is the key to restructuring the overall economy. If the enterprises, which are the cells of the economy, cannot be invigorated, it is impossible to imagine that the overall socialist economy can be invigorated. Our enterprises previously lacked internal incentive and external pressure. The main reason for this lay in the system and was related to the formation of the system and the theoretical model. For a long time, we proceeded from the formula: a planned economy equals a product economy. We understood society to be "a large factory" with an enterprise as one of its workshops. The state was the operator and the enterprises were appendages of administrative organs. Thus, enterprises were not recognized as independent commodity production units. They were not independent financially, nor were they independent in terms of personnel matters, and, of course, they did not have appropriate independence in terms of economic interests. Their task was to carry out production in accordance with orders from a higher level. If money was made, it had to be handed over submissively; if there was no money, it had to be requested. They did not

control the source of raw materials or the destination of their products, and they produced solely on the basis of orders. Everyone ate from the same pot. This sort of situation was like that where the commune members of a production team completely obey the assignments given to them by the team leader. How then can there be any initiative or flexibility?

This theoretical model certainly does not accord with the laws of socialized production. Socialized production certainly does not deny differences between production units and does not merge them into one large-scale production unit. Under a socialized production system, the social division of labor gradually becomes more specialized and the intermediate links gradually become stronger. However, the forms these links take are diversified. Through history, whenever there has been a real social division of labor, in the production of specific products, the economic cells have been independent management units. At the same time, there has always been a need for strengthened coordination and links between the management units. Under a socialist system, it is necessary to use unified planning to regulate the relationships between them. This coordination and these links and planned regulation do not mean the abolition of the division of labor. We have both centralized and decentralized management. On the basis of increasing decentralization, we strengthen centralization (the way to achieve centralization is to strengthen economic links). These are two complementary developmental trends. It is precisely the law of the combination of the centralized and decentralized forms which determine the divisions and levels of management. Under social unified coordination, the vigor of the individual production units is maintained. This, then, is the relationship between the "great cycle" of the social economy and the "small cycle" of the enterprises themselves. However, in the period when labor is still the "means of livelihood," the social division of labor will remain inevitably related to the special labor benefits of laborers. Thus benefit levels will inevitably follow management levels. In exchanging their products with those of other enterprises, they must firmly adhere to the principle of an exchange of equal value. If this is not done, it may allow some laborers to usurp the labor of other laborers. Thus closely linked individual commodity production units have been formed.

Socialist enterprises are independent commodity production units and operators which are based on public ownership and are regulated by the planned economy. If this is understood, then it is easy to properly arrange the relationship between the state and enterprises (which includes the enterprise-style companies, which occupy a quasi level). I believe that there must be a mutual service relationship between the two: In realizing the production targets, the enterprises must serve the state; in management, the state and relevant comprehensive organs (planning, financial, monetary and so on) should cater to the enterprises and serve them. They certainly should not put their energy into "blocking" enterprises. This is related to how we understand the term "centralization." Centralization should be taken to mean a benign cycle of guided coordination, overall balance, service, and supervision, and a national economy organized on an overall basis. It does not mean that the state keeps all power, controls all operations, and arbitrarily issues commands to enterprises. In reality, various types of economic levers must undertake the

three functions of regulation, supervision, and service. By using regulation as a guide and service as a base, the state must develop work in terms of service and cause the enterprises to be invigorated under planned guidance.

This is also related to the question of how the state management organs are to be reformed. In brief, there must be thorough reform in accordance with the objective demands of a developed socialist commodity economy. This must be geared towards enterprises, must provide service, and must expand the research and consultative organs. We should study some of the good experiences of developed capitalist countries in this respect.

#### Fully Utilize the Commodity Economy Mechanism to Overcome Egalitarianism

A commodity economy pays most attention to economic results. It is as completely incompatible with egalitarianism as fire is with water. As soon as the commodity economy appeared, there was natural inequality. No matter whether we speak of the handicraft industry in workshops or large-scale mechanized production, externally there was no "big pot" between enterprises and internally there was no egalitarianism between staff and workers. With the role of the law of value in play, the enterprises engaged in fierce competition. Of course, there could not be even development and, in general, differences appeared between enterprises. In order to compete, the capitalists had to think of ways to stimulate the workers' interest, so they initiated competition between workers and instituted strict accounting and the keeping of accurate statistics. The gaps between different wage levels widened, and the piecework wage system and floating wage system were increasingly adopted.

A socialist commodity economy has public ownership as its base. Labor is not a commodity and the aim is not to squeeze out surplus value. The aim is to allow equality between laborers. However, since the regulatory roles of the market and the law of value exist, there is inevitable competition between enterprises. This competition is beneficial to advancing technology, to strengthening management, to advancing the updating of products and to raising labor productivity and economic results. This competition is advantageous to realizing the aims of socialist production. It seeks and is able to overcome the egalitarianism between enterprises. In the same way, a socialist commodity economy mechanism can influence the internal arrangement of enterprises. Respect for the benefits of labor is a precondition for commodity exchange on the principle of equal value. Under a capitalist system, if an exploiter is inserted into the system, the benefits of labor cannot be truly realized. However, in socialist state-owned enterprises exploitative relationships no longer exist and it is natural that we use labor as a yardstick in distribution. As Marx said: "What is applied here is the same principle of regulated commodity exchange (in terms of an exchange of equal value)." "That is, one form of a specific amount of labor can be exchanged for the same amount of another form of labor." (Marx: "Critique of the Gotha Program" in "Collected Works of Marx and Engels," Vol 19, p 21) Exchange of products of equal value and exchange of equal amounts of labor are related. In distribution, this appears in the differences in income created by the different quantity and

quality of labor expended. The external competition of an enterprise naturally influences its internal distribution relationships and relies on this as a base. The law of value and the law of an exchange of equal amounts of labor generally requires that there be various levels of accounting, that attention be paid to economic results, and that the advanced be encouraged and the backward stimulated, so that those who make a great contribution become well-off first. If this is not so, the enterprises will have no vigor. Thus, only if there is a developed socialist commodity economy can egalitarianism be completely overcome. Actually it is the "product economy" and the natural economy that are the breeding place and the hiding places of the egalitarian "big pot." In the reform, we must firmly adhere to the commodity economy which leads the reform and links the law of value and the law of an exchange of equal amounts of labor with enterprises' external market competition and differences in income derived from labor within the enterprises. We should reward the industrious, penalize the lazy, and encourage the outstanding workers. Therefore, on the theoretical level we must resolve the following:

How are we to understand the word "work" in distribution according to work in the light of the socialist commodity economy? Everybody knows that socially necessary labor was an important category used by Marx and Engels as an abstract method of explaining the phenomena of the commodity economy. Under the conditions where products generally adopt a commodity form in a socialist society, social labor is inevitably materialized as a form of value. The yardstick for calculating payment for labor should also encompass the magnitude of value. In this way a laborer's income can be directly linked with the results of his labor. Seen from a great amount of experimental experience, we should as far as possible reduce the calculation of wages on a time basis and more fully use responsibility systems. This will link the enthusiasm of the individual workers with the raising of an enterprise's competitive capacity.

How are we to understand the word "more" in more benefits for more work, in light of the socialist commodity economy? Here we must study the limits of quantities. At present it appears that there are no differences of opinion on "more benefits for more work." However, when this is linked with reality the differences appear. In the end, is it a symbolic "more" or is it actually more, on the basis of the principle of an exchange of equal value? The socialist commodity economy has as a base a respect for the benefits of labor. Incomes should be differentiated on the basis of the amount of labor and the quality of results, and great rewards and heavy penalties should be implemented accordingly. Capable persons who make large contributions, including intellectual laborers, should be given excellent pay and conditions. Only in this way can responsibilities and interests be closely combined. In theory, there simply should be no question of a "ceiling" or "floor." It is necessary for the state to levy taxes on above-quota bonuses, but it must not be too restrictive, so as to avoid flogging the fastest ox. Only in this way will it be possible to really motivate the enthusiasm of the workers and enterprises. It should be affirmed that the enterprises which have achieved high income through being well-managed have achieved this through collective labor. They should also apply the principle of more benefits for more work. (Differential

income resulting from pricing or production conditions should be excluded.) This will directly influence the income and material benefits of individuals in all enterprises. Thus, in essence, this is also a question of distribution according to work and it can be seen as a second meaning of distribution according to work.

As to the question of the "iron rice-bowl," I believe that as there is a commodity economy and distribution according to work, nothing should be guaranteed. "Those who do not work do not eat" is a socialist principle. Those who do not work cannot produce anything of value and thus should not be rewarded. As to the sick, the handicapped, the old, and the weak, they are in another category and will be paid through social relief funds. As to specific methods, these can be worked out in practice.

#### Enlivening Commodity Circulation Is the Key To Bringing Into Play the Role of Key Cities

Large key cities are products of modern developed commodity economies. On the basis of a fully developed social division of labor, they are also centers for communications, industry, trade, finance, science and technology, and information. As such, they are a great stimulus for the further development of the commodity economy. In bringing into play the role of key cities, it is most important to utilize their organizational and developed commodity circulation networks. If we engage in a self-sufficient or semi-self-sufficient economy--a "product economy"--then we cannot even speak of bringing into play the role of key cities. At best we could use this as an industrial base, but we would be unable to organize large-scale trade. Thus, bringing into play the role of key cities is, in itself, a mechanism of the developed commodity economy.

For a long time we did not bring into play the role of key cities. This cannot be separated from the "fear of commerce disease" whereby commodities are feared and commerce dreaded. Although we have set up large commercial organizations, actually they are only appendages of administrative organizations. In their work, they use commerce as the mechanism for product allocation. In organization, circulation links are added on the basis of administrative levels while, in form, they use closed administrative divisions to replace the natural flow of commodities. All places are divided and there are barriers everywhere. This has resulted in the situation of blockades between levels and barriers between regions. Thus there is no way for the radiating functions of cities to be brought into play, and the cities end up in the position of ordinary administrative units. This, to a large degree, has been brought about by the influence of feudalism. We must bring into play the role of key cities and get rid of this influence. With the developed socialist commodity economy as a foothold in the reform, we must energetically and boldly stimulate and open up circulation.

The great significance of the industrial trade centers which Chongqing and other cities have set up is that they smash all the barriers that obstruct the circulation of commodities. They form circulatory centers that are completely open and link all areas. They have opened up a front for competition

between holders of commodities and formed bridges directly linking producers and sellers. In this way, the radiating scope of the urban economies can be expanded until they reach every remote village. We cannot see this open, smooth circulation system as an indication that state commerce is "relinquishing its position as the major channel." Neither can we simply believe that if we have centralized management by administrative organs above and graduated wholesale distribution stations below, then we have a socialist planned economy. We should establish a developed socialist commodity economy viewpoint and manage circulation in a way which really accords with the laws of commodity circulation. We must as quickly as possible to separate government and enterprise functions and merge large and small wholesale stations with local trade centers. Thus the trade centers will be able to plan overall business and they will encompass those circulation channels which linked the former wholesale stations. Apart from those goods and materials which are in great demand or restricted supply for which it is possible to temporarily adopt the method of allocation, other commodities should be subject to open wholesale. However, it is necessary to change the trade centers into market information centers and, through the information, guide the circulation of commodities.

At the same time, we must open up the urban markets. Not only should there be the present agricultural trade markets, but agricultural sideline trade centers and exchanges should also be set up. The principles of operation should be similar to those of the industrial trade centers. All cities should open the outside and allow residents of other urban and rural areas to come to the city to engage in operational activities. The cities should provide conveniences in this regard. This will not only be of benefit to bringing into play the role of key cities, but will also be of direct benefit to enlivening the market and improving supply.

In the reform of the circulation system, the reform of the goods and materials departments which handle the means of production is somewhat behind schedule. Formerly they were fettered by the old viewpoint that "the means of production are not commodities." Later, although they recognized that the means of production are commodities, they could not completely get rid of the influence of the "nominal commodity economy." They still believe that unified management and unified distribution are most important. This has resulted, on the one hand, in large amounts of commodities being overstocked and damaged, while on the other hand, enterprises have not been supplied with the goods and materials they really need. Thus it is not even possible to speak of bringing into play their radiating role. If we are to reform the goods and materials supply system, then we must establish a developed socialist commodity economy viewpoint. We must manage the means of production in accordance with the laws of commodity circulation. The goods and materials departments must further serve the enterprises both directly and through organizing coordination. It is necessary to set up trade centers and exchanges for the means of production, stimulate the circulation of goods and materials, and open up markets for the means of production. This is an important aspect of the promotion of commodity production in the rural areas, and the cities should lead the rural areas in this.

## The Influence of a Developed Socialist Commodity Economy on Ownership Forms and Operational Forms

According to the principle of dialectical "mutual roles," production determines exchange. In addition, exchange influences production and under certain conditions it has a determining role. Similarly, in the relations of production, the ownership forms generally determine the forms of exchange. However, the forms of exchange, to a certain degree, are able to condition and influence the ownership forms. Under a socialist system, a developed commodity economy will be able to influence the forms of public ownership itself. The major manifestations of this will be as follows:

The differences between ownership by the whole people and collective ownership will be reduced and they will gradually become closer. Enterprises of these two types must, under planned regulation, become independent commodity production units. After handing over taxes, they will all be solely responsible for profits and losses, will be autonomous, and will be responsible for the collective interests of the unit's workers. In the labor system, they must implement the contract system and floating wages. The differences between them will lie in their ownership, the proportion the state takes in financial distribution, and the degree of planned regulation by the state. The qualitative differences between them will become gradually less clear while quantitative differences increase. In this way, the idea of grades between the two types of enterprises and their workers will gradually be eliminated. In the future, it is highly likely that the two types of public ownership will tend to merge and become unified social ownership. This will break through the old model where collective ownership had to change into ownership by the whole people.

At the same time, there will appear some "mixed forms" and "hybrid forms" of enterprises. As the enterprises will be independent commodity production units under planned regulation, in order to meet the needs of expanded reproduction (it must be borne in mind that a developed commodity economy is an expanded reproduction form), these enterprises will need a flow of funds. They will need to adopt flexible forms to draw in outside funds and accumulated idle social funds (for example, through issuing shares), or utilize the joint funds of the state, collectives, and individuals, or run joint state-cooperative operations. In this way, new components will be added to enterprises, whether they are owned by the whole people, collectively-owned, or set up with an individual's funds (this includes private foreign funds). Thus an "impure" phenomenon will appear in public ownership. This situation will gradually become more widespread. In the reform of the urban economic system, we should give the green light to this, as it will be of benefit in developing social production. This development of the commodity economy will accord with laws and manifest the flexibility and the superiority of the socialist economy. In consolidating and expanding the publicly-owned economy, this will be of great benefit.

Related to the ownership forms is the question of operational patterns. Operational patterns are the concrete forms of ownership in the movement of

social production. One form of ownership can have many operational patterns, and one operational pattern can be used by different ownership forms. One of the important characteristics of the commodity economy is the flexibility and diversity of its operational patterns. A developed socialist commodity economy inevitably establishes a great variety of operational patterns. However, the diversifying of operational patterns does not change the basic nature of the ownership system. Because of the former fetters of the "product economy idea," particular operational patterns were often seen as fixed patterns of the socialist economy (for example, collective farms, highly centralized planning, and so on). It thus appeared that in changing some operational forms, we were breaking away from the socialist track. It should be said that such ideas are the result of dogmatic ignorance. In the reform, we should get rid of the shackles of old conventions. We must proceed from reality and, in developing a socialist commodity economy, we must bravely explore flexible and diversified operational patterns.

In summary, this is a problem of how we see the socialist commodity economy. Once this problem is resolved, all the other problems will be sorted out. We must, in manner of seeking truth from facts, recognize that a developed, planned commodity economy which is based on public ownership is an important characteristic of the socialist economy. We must use this as a base in reforming our economic structure.

CSO: 4006/252

## NATIONAL POLICY AND ISSUES

### PRC JOURNAL ON REFORM OF FOREIGN TRADE STRUCTURE

HK030849 Beijing JINGJI YANJIU in Chinese No. 11, 20 Nov 84 pp 27-33

[Article by Zheng Tabin [6774 2148 1755] of the Ministry of Foreign Economic Relations and Trade: "Problems in the Reform of China's Foreign Trade Structure"]

[Text] On 9 September 1984, the State Council sanctioned for forwarding a report by the Ministry of Foreign Economic Relations and Trade on views concerning the reform of the foreign trade structure. In its comments, the State Council pointed out: "This reform of the foreign trade structure is an important reform of the economic system of our country. It is of significance to our country's opening to the outside world, in internally enlivening the economy, further developing our country's foreign trade, and speeding up the four modernizations.

#### 1. General Condition of the Evolution of Our Country's Foreign Trade Structure

Since the founding of the PRC, simultaneously with abolishing the various special privileges of imperialism in old China, we immediately took over our country's foreign trade and enforced the policy of foreign trade control. In December 1950, the government administration council promulgated the "provisional regulations governing the control of foreign trade," clearly prescribing the following: The Ministry of Trade of the central people's government, leading its subordinate foreign trade control bureaus and sub-bureaus, has charge of affairs pertaining to foreign trade control; all public and private commercial organs doing foreign trade business and plants engaged in the export trade must apply for registration at the foreign trade control bureaus in the localities; all foreign merchants or representatives of foreign commercial organizations engaging in import and export trade in our country who are willing to abide by the laws of our country, after having been examined and introduced by the foreign affairs departments of the people's governments in the localities, may apply for registration at the foreign trade control bureaus or sub-bureaus in the localities and, only after having been reported to, and approved by the Ministry of Trade of the central people's government, may begin to do business at the designated localities. The "provisional regulations" also prescribed the institution of the system of import licensing. The "provisional regulations" and other relevant laws and

statutes unified the foreign trade control system of the whole country and basically overcame the condition of separate legislation by different localities on foreign trade and of decentralized control, enabling foreign trade to be centralized under the unified leadership of the Ministry of Trade of the then central people's government and the Ministry of Foreign Trade established subsequently.

From the establishment of the PRC to 1956, the import and export trade of our country was undertaken by different economic constituent elements, including state-run specialized import and export companies and private import and export commercial establishments. From the very beginning, state-run foreign trade occupied the primary position. At that time, the Ministry of Trade and the various foreign trade control bureaus principally exercised the power of administrative control, while the state-run import and export specialized companies were independent in business operations. It may be said that government and enterprise functions were separate. At that time the administrative control measures adopted mainly constituted the formation of guidelines, policies, and systems of regulation, examination, screening, and registration of foreign trade enterprises, enforcing in an overall manner the system of import and export licensing and examining and approving the import and export prices of commodities. They played an important role in developing state-run foreign trade, utilizing, restricting and transforming private import and export businesses, and protecting the interests of the state.

After completion of the transformation of the private import and export businesses, commencing in 1957, the whole import and export business was handled by the state-run foreign trade specialized companies, and imports and exports were carried out in accordance with the state plan. In the case of exports, the state purchase system was enforced and in the case of imports, the state allocation system was enforced. The state was wholly responsible for profits and losses. This structure was formed under definite historical conditions. At that time, our experiences in foreign trade were extremely limited. We were then confronted with blockade by imperialism and our struggles against the outside were extremely acute. Moreover, our principal trade partners were the Soviet Union and certain East European socialist countries. The form of trade was also rather simple, being principally trade on credit. The formation of this type of structure had its objective historical background, being influenced by a certain model of foreign origin. Naturally, it was also influenced by our country's commodity economy being undeveloped, the ideology of natural economy, and certain "leftist" guiding thoughts in economic work.

The 3d Plenary Session of the 11th CPC Central Committee, simultaneously with deciding on shifting the focal point of the work of the whole party and the whole country to socialist modernization, decided on the policy of opening to the outside and internally enlivening the economy, thus raising to a strategic position the development of external economic relations. Under the new conditions, the defects existing in our country's foreign trade structure were clearly disclosed. The most outstanding problems were as follows: 1) Too much and too-tight control; basically the foreign trade departments assumed

monopolistic operations, affecting the display of enthusiasm from various other sides; 2) Insufficient cooperation and combination between production and marketing; the production enterprises had too little decisionmaking power, were unable to follow changes in the international market in arranging and regulating production and reacting flexibly; 3) Nonseparation between government and enterprise functions, being accustomed to solving economic problems by means of administrative measures, and failing to give due attention to work in accordance with economic laws; and 4) Complex procedures, low efficiency, and so forth, inability to meet the demands of opening to the outside and internally enlivening the economy.

As of 1979, to suit the demands of opening to the outside and internally enlivening the economy, certain reforms were gradually carried out in the foreign trade structure. This brought about the following changes in the structure: 1) A change was made in the monopoly status hitherto enjoyed by the Foreign Trade Ministry in the foreign trade operations of our country. The channels for foreign trade operations were enlarged and the enthusiasm of the departments and localities in developing foreign trade was aroused. This was mainly due to the handling power of the import and export of a certain portion of commodities having been dispersed and delegated to lower levels and the formation of a number of import and export companies. According to statistics, by the end of August 1984, there were nearly 600 import and export companies at the provincial level or above (not including companies in the special zones and companies at, or below, the district or city level). This was 500 percent of the number in 1978. 2) The scope of the localities directly engaging in the export trade was extended and a system of management at various levels of export commodities was enforced. At present in the country, the 29 provinces and municipalities, 4 special economic zones, Hainan Administrative District, and Zhongqing and Wuhan Municipalities have, in varying degrees, the power to engage in foreign trade operations. Thus, enormous changes were made compared with the former situation where only the coastal provinces and cities participated in foreign trade. 3) Efforts were made to try out various methods of industrial and trade combines, technical and trade combines, and the direct linking of production and marketing to bring about the union of the two superiorities of production and trade, to introduce and import foreign technology, to promote upgrading products and thus to expand foreign trade. This has principally resulted in sanctioning certain large and backbone plants and enterprises to engage directly in foreign trade, and the formation of a number of import and export companies and jointly-operated companies possessing the features of industrial and trade and technical and trade combines. As of now, there are over 90 large and medium-sized enterprises in foreign trade, with the former directly engaged in it and the latter working jointly with plants. These experiments have achieved definite results.

These trial points in reform and probing work have initially expanded the channels in foreign trade, enabled the methods of trade to become flexible and diversified, aroused the enthusiasm of various quarters for developing foreign trade, and promoted the development of our country's import and export trade. However, these reforms principally emphasized the division of power between

the central and local authorities and between the departments and localities. Basically, they did not touch on the key problems of how to bring vitality to the enterprises, nor solve the fundamental and important problems and thus the defects in the foreign trade structure have not been basically banished. These problems are mainly the following:

1. Nonseparation of government and enterprise functions. In foreign trade work, due to the government and enterprise functions not having been separated, the enterprises are lacking in vitality. This not only has restricted the positivism of the enterprises and affected the development of the foreign trade but also has augmented the growth of the bureaucratic demeanor of the foreign trade companies, making certain foreign trade enterprises unable to actively and on their own initiative render services to the departments supplying the commodities, the production enterprises, the units using the goods, or scientific and technical research organs. The nonseparation of government and enterprise functions has led to many different government organs giving orders, and hindered the departments in charge of foreign trade administration bringing their role into full play and in enforcing unified management; the administrative departments have exercised excessive intervention in the concrete operations and business of the enterprises, attended to many affairs which they should not have managed and could not manage properly, and failed to grasp well the big and important problems related to guidelines and policies. This has helped the growth of bureaucratism and in reality has weakened the functions of the state organs.

2. "Everybody eating from the same big pot." Over the past few years the reforms in the foreign trade structure have not accomplished the purpose of unifying responsibility, power, and interest and have not solved the problem of "everybody eating from the same big pot." Although the power of foreign trade operations has been delegated, economic responsibility has not been delegated with it. This has brought about a state of operating separately and severally, forcing the economic and trade departments (meaning central finance) to bear wholly the responsibilities of profits and losses, that is to say, the enterprises "eating from the same big pot" at the expense of the state. As a result of the financial structure of foreign trade not having made corresponding changes in the course of the reforms, responsibility, power, and interest were further separated and the economic results were continuously worsened. In the past few years, the production cost of our exports has been advancing yearly, the amount of funds involved in foreign trade has been increasing yearly, and stockpiling of goods in the warehouses has been rising yearly. This may have been due to various international and domestic factors but a very important cause was that in the reform of the foreign trade structure, responsibility, power, and interest have not been unified and the practice of "everybody eating from the same big pot" has continued to prevail.

3. Dislocation of production and marketing. The problem of forming industrial and trade combines and technical and trade combines has been brought up for many years and has gone through various trial points and probing work, but a true solution is still lacking. The main cause may be ascribed to the delegation of the power of foreign trade operations resulting generally in

extending the power of the administrative units in the localities or departments, that is to say, shifting the operating power between the administrative departments and failing to touch the key problem of granting decision-making power to the foreign trade enterprises and production enterprises. The latter are still under the administrative control of the departments and localities. The enterprises have not truly become the main bodies in foreign trade operations and their enthusiasm has not been fully aroused. Some of the test points for industrial and trade combines have become formalistic, failing to bring their superiority into full play. Except for a small number of trial points which had turned in a relatively good performance, the situation as a whole appeared to be that the problems of dealing with the dislocation of production and marketing, improving the quality of products, increasing styles and varieties, upgrading the standard of the products, and replacing existing products with better products, still remain unsolved and in certain localities and departments, the contradiction between industry and trade has become even more intensified than before. The foreign trade structure itself has seriously impeded the development of industrial and trade combines and technical and trade combines.

In short, in recent years reform of the foreign trade structure has not brought any fundamental changes and a new situation has not been opened up. In May 1984, Comrade Zhao Ziyang submitted to the Second Session of the Sixth NPC "Government Work Report" in which he pointed out: "To further develop the foreign trade of our country, it is also necessary to gradually reform the foreign trade structure. In foreign trade, it is necessary to carry out unified leadership and confine control to a designated department. The phenomenon of orders being issued by many departments must be overcome. At the same time, it is necessary to fit the new conditions, do further enlivening work, and adopt effective measure to arouse enthusiasm from various sides. Reform of the foreign trade structure must be carried out with the stress on being advantageous to both the formation of industrial and trade combines and technical and trade combines and the separation of government from enterprise functions. (Footnote: Zhao Ziyang "Government Work Report," People's Publishing House, 1984 edition, p 18) We shall now, based on this spirit and on the foundation of summing up many years' experiences in reforming the foreign trade structure, offer a proposal for further reforms as follows:

## II. Principal Contents of Further Reforming the Foreign Trade Structure

The guidelines for the current reform of the foreign trade structure are: 1) Separation of government from enterprise functions, with the function of the Ministry of Foreign Economic Relations and Trade to be in charge of administrative control; 2) enforcing the agency system in foreign trade operations; and 3) forming industrial and trade combines, technical and trade combines, and import and export combines. Based on these three guidelines, reforms of the foreign trade structure should principally proceed along the following lines:

First, separation of government from enterprise functions, streamlining administration, and delegating power. This is a breakthrough in the reform of

the foreign trade structure, being the nucleus of the reforms. In the reform of the foreign trade structure, solving first of all this basic problem of nonseparation of government from enterprise functions and over-centralization represents indeed a big step forward. Following the separation of government from enterprise functions, the Ministry of Foreign Economic Relations and Trade and the economic and trade bureaus (committees) of provinces, municipalities, and autonomous regions will confine their functions to being in charge of the administrative control of foreign trade while import and export businesses will be handled independently by the foreign trade enterprises. From now on, the Ministry of Foreign Economic Relations and Trade will perform the functions of state control over foreign economic relations and trade, unify leadership, and thus control the foreign trade work of the whole country and various categories of foreign trade enterprises. Its 10 administrative functions and powers are: 1) Formulating guidelines, policies, regulations, and systems pertaining to foreign trade, organizing their enforcement and supervising their execution. 2) Cooperating with the State Planning Commission in compiling and promulgating a long-range foreign trade development program for the whole country, targets for commodity imports and exports for the year, and supervising and checking the execution of the program. It is responsible for compiling the statistics on the whole country's foreign economic relations and trade. 3) Employing various economic tactics and formulating economic measures for regulating import and export trade, supervising and checking the operations of various categories of foreign trade enterprises, and fixing and enforcing measures of rewarding and punishing various categories of foreign trade enterprises. 4) Formulating plans designating countries and localities with which to carry on foreign trade, organizing trade talks with governments of foreign countries, signing trade agreements and organizing their enforcement. It represents the government at international economic and trade meetings. 5) Examining and approving the establishment, merging, or abolition of enterprises handling foreign economic relations and trade both inside the country and abroad; examining, approving, and exercising control over representative organs of foreign enterprises stationed in China; and exercising control over China's commercial and economic administrative organs stationed abroad. 6) Examining, approving, and issuing import and export licences. It controls and sets the allocation limits and quotas of imports and export commodities; and sets and readjusts the list of import and export commodities subject to unified control. In accordance with regulations of the state, it examines and approves agreements for the import or export of technologies. 7) Exercising unified control and organizing inspection work on the quality of import and export commodities. It exercises unified control of the trademarks of export commodities. 8) Being responsible for investigating and studying international market conditions; exchange of information; and supplying timely information, forecasts, and advanced intelligence reports to economic and trade enterprises and relevant departments in the whole country. 9) Various categories of foreign trade companies in the whole country must submit to the upper-level economic and trade departments for reference the election, appointment, or dismissal of members of the board of directors, managers, and assistant managers; the upper level economic relations and trade departments are required to supervise their business activities and may recommend the

dismissal or replacement of personnel who perform poorly. 10) Being responsible for leadership and guidance of higher institutions of learning on foreign economic relations and trade of the whole country and for organizing the training work of personnel in economic relations and trade and assisting the localities to do well in running schools on economic relations and trade. In performing these 10 administrative functions, the principle of separate-level management should be followed; a portion of the power and functions should be delegated to the economic relations and trade bureaus (committees) so that they may bring their role into full play. The various levels of economic relations and trade administrative control departments must gradually reduce their interference in the normal economic activities of the enterprises, and learn to use economic tactics to effect macroscopic control.

The various categories of foreign trade enterprises must gradually become independent from the administrative control departments at various levels to which they belonged originally. There must be a separation of government from enterprise functions; the enterprises should operate independently, be responsible for their own profits and losses, and seek development in the direction of specialization and socialization. Naturally, this will require some time but once the direction has been fixed, it must be pursued firmly. Separation of government from enterprise functions should not be confined merely to the foreign trade department. It should apply also to other departments and the import and export companies of the localities. It would not do to separate the foreign trade enterprises from one department and then merge them again with other administrative departments; nor would it do to separate them only from the administrative departments of the central government, but forthwith keep them under the control of administrative departments of the localities, thus setting up anew the nonseparation of government for enterprise functions. The enterprises must be given more decision-making power and we must bring the vitality of the enterprises into full play. Is this inconsistent with fully displaying the role of central cities and towns? Certainly not. This is because in the economic management system which is based on the central cities and towns and is of a free and open type and takes the form of a network, we must also separate government from enterprise functions, and, in like manner, there can be no nonseparation.

To ensure the continuous development of foreign trade, there must be some foreign trade specialized principal companies which are of a nation-wide scope, specialized, and socialized. At present, it is necessary to maintain these foreign trade specialized, principal companies in a relatively stable state and there should be no big changes. Naturally, the situation of a few big companies completely controlling the whole import and export business is entirely unsuited to developing the situation of opening to the outside, does not conform with the demands of the development of foreign trade, and must be rectified. Hence, a large number of medium-sized and small foreign trade companies will grasp the opportunity and appear on the scene while many large production enterprises will have the power to engage in foreign trade. Foreign trade administrative departments, in their management work, must treat all units, big and small, old and new, alike and allow them and the foreign trade specialized companies to supplement each other, facilitate and promote

each other, and jointly fulfill the tasks in foreign trade. Naturally, all foreign trade companies must consciously abide by the policies and laws of the state in their operations, accept the control and coordination of the foreign trade administrative and control departments at various levels, complete the tasks assigned by the state, and protect the interests of the whole state.

For the purposes of further enlivening operations and carrying out the principle of delegating power, it has been decided to reduce the varieties of import and export commodities under the unified management of the specialized principal companies. Concerning the same variety of commodities it is permissible for a number of foreign trade enterprises, subject to the approved scope of operations, to carry on intersecting or overlapping operations, competing with each other; translocality arrangements for sources of supply of goods should be permitted, purchases should be organized, and free appointment of agents should be advocated. With power having now been delegated, will the specters of rising prices, crash purchases, price cutting, and cut-throat competition be generated? We must be ideologically prepared for such eventualities. When the reforms begin, certain problems may appear. However, if we just perform our jobs in strict accordance with the state's policies and systematic measures, do the work meticulously, and if the various operating units also earnestly work according to the rules and pay due regard to the economic results, then these problems can be solved readily. It can also be seen that since the foreign trade enterprises and production enterprises are responsible for their own profits and losses and accounting is done strictly in accordance with the uniformly fixed production costs of export commodities, whoever enacts the past practice of "everybody eating from the same big pot" and acts in the unbusiness-like manner of disregarding the cost of production will surely go bankrupt and surely nobody would like to do such silly things. Competition, done properly, must be advocated; formerly we were wrong in taking competition as a special phenomenon of capitalism. In reality, so long as commodity production exists, competition will naturally occur. We need only point out that under different social systems, the purpose, nature, and scope of competition differ. Competition between socialist enterprises is vastly different from the strong eating the flesh of the weak under capitalist conditions. It is a contest between superior and inferior units or beings carried out on the basis of the public ownership system, under the control of the state plan, policies, and statutes and under the logical premise of serving socialist modernization and is advantageous to breaking the blockade and monopoly of economic development; to the timely disclosing of the enterprises' defects; to facilitating the improvement of the enterprises' technology, management, and control; and to improving the service attitude, lowering production costs, improving the quality and quantity of output, and making the backward catch up with the progressive. But socialist import and export enterprises must firmly insist on the principle of being united in their foreign relations. This is a necessity in correctly carrying out the state's guidelines and policies and protecting the interests of the state. At present, our focal point is solving the problem of a high degree of centralization, and providing for an appropriate degree of decentralization so as to enliven foreign trade operations. This is a natural procedure and cannot be bypassed. But, taking a long-term view, we must guide everybody to take the

road of forming a combination with the coastal ports as the center and be united in our foreign relations. This type of combination must be formed on the basis of mutual need and volition. It can be a closely-knitted combination or a loose combination, but there must be coordination and unanimity in foreign relations. This problem is not an urgent one at the moment but we cannot evade it. It must be solved gradually, as the circumstances permit. Nevertheless, the direction of proceeding from the present dispersal to a future combination is definite. It will be a combination built on a new foundation.

Foreign trade specialized principal companies and their branch companies have between them leadership relations. Local foreign trade companies may voluntarily combine with specialized principal companies and may form partnerships or joint ventures or associations, and administrative organs at various levels cannot intervene at will. This is determined by the actual conditions and possibilities at present. It may be imperfect. In the course of its enforcement, we should search for new forms, create experiences, and ceaselessly attempt to find solutions. The principal companies should fully arouse and bring the enthusiasm of the branch companies into full play, must extend decisionmaking power in operations of the branch companies, must delegate power to the branch companies and not withdraw it.

For the purpose of reducing the levels of control on foreign trade principal companies in the various provinces, autonomous regions, and directly subordinate municipalities may be abolished or changed into foreign trade companies of the localities. In the localities, the branch companies of the various specialized principal companies will no longer be under the leadership of the local companies. Rather, they will be under the administrative control of the economic and trade bureaus (committees) in accordance with documents approved by the State Council.

Second, instituting an agency system for imports and exports. The agency system is for the foreign trade enterprises to render services, accept assignments or requests to import or export commodities, and to collect handling fees, and the entrusting units will be responsible for the profits and losses. This is a necessary condition for foreign trade enterprises to operate independently and be responsible for their own profits and losses. Enforcing the agency system in importing and exporting is also an effective measure to overcome the defects of "everybody eating from the same big pot," and for improving the economic results and banishing impediments to the development of foreign trade. Enforcing the agency system is also advantageous to facilitating close cooperation on the basis of common interests between the production enterprises and the foreign trade enterprises, and promoting the union of industry and trade and of technology and trade. The import and export agency system will become a basic system in the foreign trade operations of our country. But in its enforcement, many temporary difficulties may be anticipated. Hence, it should be carried out gradually, based on giving different treatment to the different conditions of the commodities.

In the past, it was our practice mainly to adopt the system of state purchases of commodities in our export operations. This method was necessary under the conditions in the country of the circulation of commodities not being smooth going and the supply of products not being exactly plentiful, and helped to ensure the development of foreign trade. But following the development of commodity production, the opening up of circulation channels, and the further intensified implementation of the policy of opening to the outside, this method of operation has been found to be increasingly unsuitable and a crop of problems have emerged. First, production is separated from marketing, thus affecting the development of the export trade. Second, the large-scale stockpiling of goods is prevalent. This means a large amount of funds is held up and in the event the quality of their products deteriorates from prolonged stockpiling, serious waste and losses will be incurred thus adversely affecting the economic results. Third, "everybody eats from the same big pot," a practice highly disadvantageous to improving the economic results.

In the past, in import operations the allocation system was mainly adopted. The allocation price of a great proportion of the commodities was lower than not only the import price but also, in some cases, the negotiated price within the country. It also happened that despite the difference in quality between the imported commodities and the domestic products, the prices were the same. All this was obviously disadvantageous to promoting the development of production within the country and also to improving management and control and reducing the cost of production on the part of the production enterprises.

Enforcement of the agency system is advantageous to bringing the potentials of the production enterprises and foreign trade enterprises into full play. In recent years, 50 percent of the gross value of our imports had been carried out under the agency system. As for exports, the system had also been practiced to a certain extent. In particular, since the beginning of the year, the agency system has been enforced in extra-plan exports, and the results have been commendable, proving that the system is workable. Naturally, the state must also formulate certain relevant policies, helping the enterprises to solve certain difficult problems which they cannot solve by their own efforts. After enforcing the agency system, the profits and losses of the foreign trade enterprises will mainly depend on their good or poor services. Whichever company renders good services will receive more business and this will naturally increase its income. On the other hand, people will refrain from entrusting business to a company with poor services and it will not be able to continue its operations, may even have to close its doors, and we should permit the closing down of foreign trade enterprises. This will make it possible for basically making foreign trade enterprises rectify their bureaucratic demeanor, improve their management and operations, and raise the quality of their services.

Third, reform of the planning structure and simplifying and streamlining the contents of plans. In the case of exports, the former practice was that all commodities were subjected to mandatory planning. Now the Ministry of Foreign Economic Relations and Trade will release to the lower levels only plans for the gross amount of foreign exchange earnings from exports and plans for the

quantities of a small number of commodities with a bearing on the national economy and the people's livelihood. The former portion is in the nature of guidance planning whereas the latter portion is mandatory planning, but both belong to the sphere of the planned economy. At the same time, the Ministry of Foreign Economic Relations and Trade will no longer compile and release to lower levels plans for state purchases and for allocations. On the side of imports, concerning the foreign exchange imports of the central government, imports in large quantities of a small number of commodities, imports of major complete sets of equipment, and imports of commodities under trade agreements and treaties, the Ministry of Foreign Economic Relations and Trade will, in accordance with the state plan, designate the specialized principal companies to handle. This portion is mandatory planning. As for the other imports, the ministry will no longer forward to the lower levels import plans which have the commodities and items separately listed. Rather, it will divide up the quota for using foreign exchange for imports among the departments using the goods or placing orders for the goods, giving the latter a free hand in entrusting foreign trade enterprises to act as agents for imports. Production enterprises which have been endowed with the power to handle foreign trade may also handle their own imports. As for the freely entrusted imports, the foreign trade companies can only handle those under guidance planning.

Fourth, reform of the foreign trade financial structure and intensifying the use of economic regulation tactics. The various categories of foreign trade enterprises must pay taxes in lieu of delivering profits. They must follow the relevant regulations of the state and pay to the financial and taxation departments taxes according to law. This will loosen the link between the financial departments and the existing departments in charge of the enterprises. The economic responsibility system must be enforced so the operations will be performed well in accordance with the needs of the state.

Encouraging exports should be the long-range, national policy. As for imports, they should likewise be subjected to certain economic regulation measures. This will develop trade and will not dilute the state's financial power. In short, it is necessary to apply economic measures to facilitate the healthy development of the import and export trade in accordance with the state's needs, appropriately handle the interests of the state and of the enterprises, make the enterprises strengthen business accounting and improve the economic results.

Fifth, further enforcing the formation of industrial and trade combines and technological and trade combines. Carrying out the combination of industry and trade and the combination of technology and trade is an important guideline for developing our country's foreign trade and speeding up technological development. This problem has been emphasized for many years and a few trial points have been made, but no notable results have been achieved. This was because the enterprises had suffered restrictions from the localities and administrative departments and could not fully select their partners and form free combinations. After the actual practices in the past few years, we believe that the essence of the industry and trade combine should be the combination of foreign trade enterprises and production enterprises. Separation

of government from enterprise functions and instituting the agency system will remove the impediments that affect the combination of industry and trade and the combination of technology and trade. Following the foreign trade enterprises operating independently, they can, based on their own conditions, formulate concrete strategies for development, and, with a set purpose and in a planned manner, cooperate with production enterprises and technological units, actively rendering services and providing the necessary information and data to strive for the maximum economic results. Freed from the restrictions of the departments and localities and without any sectarian bias, the various categories of enterprises will find it possible to select the best plan for bringing about the combination of industry and trade and technology and trade. Instituting the agency system will make clear the responsibilities of the two groupings of industry and trade and technology and trade, make them enjoy common interests, reduce the intermediate stages, and will naturally cause the development of industry-trade combines and technology-trade combines. With these two combinations working in smooth order, our foreign trade enterprise will become even more prosperous and thriving.

In short, it is necessary for our economic and trade departments to employ comprehensive economic tactics and administrative measures, be able to keep foreign trade under control macroscopically after having loosened it microscopically, bring about unified leadership over foreign trade and its management by the proper department to which it belongs, overcome the phenomenon of different departments issuing different orders, and at the same time adroitly guide action according to circumstances, adopt effective measures, and arouse enthusiasm from various sides.

### III. Certain Problems Requiring Intensified Study

The present reform of the foreign trade structure covers a wide field, is of a strong policy-enforcement nature, and involves extremely difficult tasks. The reform must resolve many problems of policy and reality, and, above all, must solve various kinds of problems that exist in mankind's ideology and knowledge.

1. We must recognize the significance of reform of the foreign trade structure and its urgent and necessary character. For a certain period from now on, the focal point of the economic work of the whole country will be to grasp well these two projects to reform the structure and opening to the outside. Reform of the foreign trade structure combines these two projects into one, is a big and important affair, and has far-reaching significance. Foreign trade provides the link for joining together domestic markets and international markets, and plays a special and important role in developing the national economy. Following the progress of our country's socialist modernization program, higher demands are being made on foreign trade. The modernization program calls for trying to catch up with the world's economic and technological level. In itself, it implies intensifying foreign economic relations and expanding the scope of exchanges between nations. "The socialist modernization program of our country must use two categories of resources, namely, internal resources and external resources, must open up two

markets, namely, domestic and international markets; and we must acquire two kinds of ability, namely, the ability to organize domestic construction and the ability to develop external economic relations." Our foreign trade has the purpose of not only helping supply each other's needs and regulating and adjusting mutual surpluses and shortages but also, in a much wider field and on a much larger scale and through division of work between nations, of bringing the economic superiority of our country into full play and attaining the best economic results. It also carried the purpose of facilitating the overall development of the national economy and technology through international exchanges and acquiring the necessary resources and know-how to equip the various departments of the national economy for carrying out the modernization program. Internationally, all the nations are eyeing the potentials of the vast China market. The emergence of the world's new technical revolution accords us with a new opportunity but also a new challenge. The big and important changes demanded by this situation and the tasks emerging therefrom requires us to reform the foreign trade structure so as to suit the demands of the new changes and display the role of foreign trade in an even better way.

2. Problem of separating government from enterprise functions, streamlining administration, and delegating power. Separating government from enterprises functions means separating the administration and control by administrative departments from the operations of the enterprises. This is related to the problem of the relations between ownership rights and operating authority of foreign trade enterprises. The functions of state organs and of enterprises differ. The right of ownership of socialist foreign trade enterprises belongs to the state and to the whole people. However, the right of ownership and operating authority can and should be separated. Ownership by the state or by the whole people does not mean that the administrative organs of the state can intervene at will in, and infringe on, the autonomous operating authority of the enterprises and their normal economic activities, or that state organs must directly manage the enterprises. It is important that streamlining administration and delegating power must go at the same pace as separating government from enterprise functions. After separating government from enterprise functions, the Ministry of Foreign Economic Relations and Trade acts as an administrative department endowed by the state with unified leadership over and the right to solely administer the foreign trade of the whole country. The pivotal point of its work will be shifted to enforcing administrative control over and providing economic support to foreign trade, big and important changes must be envisaged in the functions of organs of the ministry, and the tasks of these organs will not be lessened but more heavily loaded. The contents and methods of its work must also be correspondingly changed. "Delegating power" means extending the decision-making power of the enterprises in their operations. This includes the power of control of commodities and definite personnel and financial power, and so forth, necessary for an enterprise, thus creating the prerequisite conditions for the enterprise to be responsible for its own profit and loss, to operate independently and to truly become an economic entity. The enterprise handles the main tasks of production, construction, and commodity circulation and constitutes the main force in developing the social productive forces and achieving economic and technological progress. Providing the enterprise with

decision-making power and increasing its vitality are the central stage of economic reform. We should not deviate from this center and should not transfer or shift the power of operations in-between the localities and departments.

3. We must make an intensive study on why, from now on, the export agency system will be the basic system in our foreign trade operations. Over the past 30 years, our foreign trade has been apportioned, to a large degree, on the basis of egalitarianism. At present, the proposition is to permit competition, to choose the superior goods for export, and to arrange for trans-locality purchases and sources of supply. Thus, from now on, foreign trade development in the various localities will be unbalanced, with some localities developing rather rapidly, some slowly, and, in individual localities, even at a standstill. This kind of condition exerts a sort of pressure and is also a kind of motivation. It can encourage the various localities to display their own superiorities, select superior goods for export, and thus improve the competitive power of export commodities. Various localities must be ideologically prepared for such a development.

4. Solution of the problem of industry-trade combines and technology-trade combines. These two forms of combines should be a direct union between industrial and trade enterprises on the basis of common economic interests and not a union between management or control organs. Theoretically how should this problem be clarified? On the form of combination, experiences over the past few years has shown that diversified forms of combination may be adopted. But which form and which kind of combination should be adopted in order that the combination of industry and trade and of technology and trade may work even better and achieve better results still requires further studies and further investigation of actual practices.

5. After the reform of the foreign trade planning structure, the former system of all the commodities coming under mandatory planning was changed to the major portion of the commodities coming under guidance planning. How will enforcement of this planning structure in which guidance planning plays the main role ensure the realization of the state's foreign trade plans? What are the policies, management measures, and economic tactics needed?

6. Problem of encouraging exports. The world's countries are all adopting policies encouraging exports in order to develop the export trade. In the same manner, encouraging exports is a long-range national policy of our country in developing our foreign trade. We should study how foreign countries are encouraging exports, how we should encourage exports, and what policies should be adopted.

7. Under the conditions of many-headed operations, how is it possible to insist on the principle of unity in foreign relations, so that foreign trade may be further enlivened and the phenomenon of confusion will not occur? On the one hand, our administrative and control departments must strengthen their management work, step up their guidance over the enterprises, and enable them to improve their services, be quick in hearing and sharp in seeing, and

triumph over their opponents in the highly competitive international market. On the other hand, foreign trade enterprises must take protection of the overall interests of the state as the starting point, and obey the proper control of the foreign trade administrative and control departments. Tightly uniting these two sides will prevent the appearance of a phenomenon of confusion and accomplish the objectives of unity in foreign relations, true realization of enlivening in microscopic matters and holding well macroscopically, thus forming a state of development in which foreign trade is enlivened without confusion.

CSO: 4006/252

## NATIONAL POLICY AND ISSUES

### NATIONAL SEMINAR ON ECONOMIC REFORM HELD

HK280911 Beijing RENMIN RIBAO in Chinese 24 Dec 84 p 5

[ "Academic Trends" Column by Jiang Yingguang [5592 2503 0342]: "A Meeting to Study, Digest, and Research the 'Decision'--Introducing the National Theoretical Discussion Meeting on Reform of the Economic Structure"]

[Text] The National Research Society for Economic Reform and the National Research Society for Socialist Political Economy jointly held a national seminar on theory about reform of the economic structure. The meeting profoundly studied the "Decision on Reform of the Economic Structure" adopted by the 3d Plenary Session of the 12th CPC Central Committee and many theoretical and practical questions appearing in the course of the economic reform.

#### The Definition and Content of New Productive Forces

Developing the productive forces of society is the purpose of our country's economic structural reform and is the criterion for judging the success or failure of all reform measures. However, when mentioning the development of productive forces at present, we mostly refer to some new productive forces. So it is necessary to define and discover the content of new productive forces.

Marx said that labor productivity, or productive forces, is determined by many factors, including the average skillfulness of people's work, the level of scientific development and the degree of technological application of scientific achievements, the level of social integration of production processes, the scale and efficiency of the means of production, and natural conditions. Some comrades held that in light of this conception, the definition and content of new productive forces may be studied from four aspects, namely, the combination of workers and the means of production, the productive forces developed by science, the industry of knowledge, and the strategic distribution of productive forces.

In socialist society, laborers constitute the subjective body, and the means of production is the objective body. In the past, the means of production was regarded as the most important factor, and insufficient attention was paid to laborers, another important factor. Now, an important point in the guiding principle of economic reform is to link the position of laborers as masters with their economic interests so as to ensure the position of laborers as masters of society.

With the progress of society, science plays an increasingly important role in the development of productive forces. Science and technology has become an essential factor of productive forces, and scientists and technicians have become pioneers of new productive forces. So it is necessary to rapidly develop scientific and educational undertakings and build a strong and large-scale army of scientific and technical personnel. For this reason, scientific and technological research should be taken as a special industry; the initiative of intellectuals and technical personnel should be fully aroused; and investment in scientific research should be increased. In addition, it is necessary to introduce and assimilate advanced technology from other countries and to use foreign technological achievements for our own purposes.

#### The Meaning of the Planned Commodity Economy

A socialist planned economy is a planned commodity economy based on public ownership. This proposition not only breaks through the traditional idea of pitting the planned economy against the commodity economy, but also advances the concept of combining the planned economy with the commodity economy. The scientific nature of this proposition lies in its organic integration of the two parts into a basic feature of the socialist economy, thus breaking down all prejudices against the commodity economy. The commodity economy is not a factor exclusively existing in the capitalist economy, and it cannot be equated with the capitalist economy. Rather, the commodity economy is an economic form which is a category relative to the natural economy and the product economy. So the commodity economy on its own does not show the character of any socioeconomic system. The fundamental difference between socialism and capitalism lies in the fact the former is based on a united labor system and the latter is based on a wage labor system. To be sure, the extensive development of the commodity economy will lead to some blind economic activities. However, it is necessary to make concrete analysis of the blindness in this regard; and the harmfulness of the blindness in the commodity economy should not be exaggerated. Under capitalist conditions, the blindness of production is related to the basic contradiction of capitalism and reflects the intrinsic contradictions of capitalism. Under socialist conditions, the "blindness" of the commodity economy in fact refers to the "spontaneity" of expanded commodity production and commodity exchange and to the "spontaneous role" of the law of value. These "spontaneous" functions can help readjust and regulate the deviations caused by the subjectiveness of our planning work to a certain extent.

The great significance of the theory of the planned commodity economy lies in the fact that this theory can serve as a firm theoretical foundation for the building of a Chinese-style and dynamic socialist economic structure. The CPC Central Committee's "Decision" has settled a series of major questions all on the basis of the theory of the planned commodity economy.

#### The Conditions for Invigorating Enterprises

Making enterprises more dynamic is the key to the economic reform. In order to invigorate enterprises, it is necessary to create some external conditions for the enterprises to invigorate themselves. To put it in a nutshell, it is

necessary to ensure that enterprises operate their businesses independently and bear sole responsibility for their profits and losses so as to enhance their economic efficiency by the joint effect of external pressures and internal incentives. To do so, we must give greater decisionmaking power to enterprises, properly maintain the overall balance in the macroeconomic field, step up comprehensive reform of the economic structure, clearly differentiate the functions of an enterprise from those of a government organ, and enact necessary economic legislation and make sound as soon as possible the necessary economic legislation. Apart from having necessary external conditions, enterprises should also correctly handle their relations with their workers. They should arouse the initiative and work enthusiasm of both mental and physical workers. It is essential to implement the principle of distribution according to work and to link the social honor and material benefits of the workers with their work results. We should give enterprise leaders the necessary authority to direct production and operation and to enforce strict labor discipline. Their authority must be safeguarded. At the same time, we should also ensure the position and rights of workers as masters of the enterprises.

At present, we should pay special attention to the invigoration of large enterprises. It is necessary to create better conditions for them in the fields of planning, taxation, and appropriations for technological transformation.

#### The New Approach to Mandatory Planning

Some comrades at the meeting pointed out: There are many drawbacks in regarding mandatory plans as something compulsorily imposed upon enterprises. If we hold, in theory, that mandatory planning is the main form of socialist planned management and, at the same time, regard mandatory planning as something merely compulsory, then we may reach such a conclusion that the socialist planned economy is one that is based on compulsory planning. This may lead to a misinterpretation of the essence of the socialist economy and may go against the principle of exchange at equal value in a commodity economy. In practice, this idea cannot ensure scientific planning; conversely, it may give rise to the maladies of neglecting the economic and legal means in economic management and laying lopsided emphasis on administrative orders. Some comrades said that mandatory plans should be regarded as plans that have binding force to both the enterprise and the relevant government organ and that define the duties and rights of both sides on the basis of a commodity economy. So, mandatory plans of this kind should be implemented through the signing of economic contracts. Once such contracts are signed, both sides will enjoy certain prescribed rights and will have the duty to honor the contract. Whichever side breaks the contract must be punished.

What is the basis for mandatory planning? Some comrades said that many traditional viewpoints need to be reconsidered.

#### How To Control and Regulate the Macroeconomic Situation

Under the conditions of a planned commodity economy, it is still necessary and also possible for the state to control and regulate the macroeconomic situation. The purpose of this control is to guarantee appropriate ratios between major economic sectors and the well-coordinated and proportionate development of the national economy as a whole. Some comrades said: The main part of macroeconomic

regulation is to achieve a balance between gross supply and demand of society in a certain period. In order to achieve such a balance between gross supply and demand calculated with net output value, we must ensure a proper distribution of the national income and must maintain a financial balance, a credit balance, a foreign exchange balance, and a balance between gross supply and demand in the markets. In view of the previous problems and the new situation at present, we should pay particular attention to the ratio of accumulation to consumption, the state of financial revenue and expenditure, the supply of money, the amount of foreign exchange reserves which should not be too high, and the supply and demand of major commodities.

The main method of macroeconomic regulation is to conscientiously follow the law of value, organically combine planning mechanisms and market mechanisms, and properly use such economic levers as pricing, taxes, credit, wages, and investment. We must make macroeconomic planning and decisionmaking more scientific. We should establish an open and unified socialist market, including a money market, a market for technology transfer, and a labor "market." It is necessary to reform the monetary system and the financial system. Comprehensive and powerful centers for the use of economic levers, especially at the central level, should be established. Some comrades also said that reform in various fields must be well coordinated and carried out in an orderly way. It is necessary to differentiate macroeconomic regulation in pursuit of a certain objective from macroeconomic regulation in the economic reform.

#### The Glorious Tasks of Theoretical Workers

The overall reform of our country's economic structure has put forth higher requirements for our theoreticians. On the one hand, they are required to provide theoretical foundation for the reform measures which are suited to our country's conditions. On the other hand, they should pay close attention to the new phenomena appearing in the practice of reform and seriously study these new issues so as to enrich and develop Marxist economic theory.

CSO: 4006/257

## NATIONAL POLICY AND ISSUES

### BRIEFS

ECONOMIC INFORMATION CONFERENCE—The conference of five provinces and one autonomous region on economic information and cooperation concluded in Wuzhou, Guangxi Autonomous Region, at the end of December. The conference proposed to subordinate units that it is necessary to make use of the special conditions of the banks to vigorously do well in providing economic information, to develop banking, to do a good job in lending, to help leaders of the party and government formulate economic policy decisions, to help enterprises improve business and management and raise their economic results, and to do everything possible to develop foreign trade and to speed up the four modernizations. This conference was attended by representatives of the people's banks and industrial and commercial banks in Yunnan, Guizhou, Hunan, Sichuan, Guangdong, and Guangxi. [Summary] [Nanning Guangxi Regional Service in Mandarin 1130 GMT 31 Dec 84 HK]

ECONOMIC LAW MEETING CONCLUDES--The national meeting on economic law, which was sponsored by law associations in Sichuan, Henan, and Shaanxi provinces, concluded yesterday in Xian. Over 100 representatives from 20 provinces, cities, and autonomous regions, who are engaged in research in and implementation of economic law, attended the meeting. The representatives discussed, in the light of the present urban economic structural reform, the guiding ideology for legislating economic law, cities' contracts on economic responsibilities, enforcement of economic law, economic lawsuits, and ways to improve the vitality of enterprises. (Liang Wenying), vice president of the China Association for Law Sciences, attended the meeting and spoke on how to make the law serve the reform of the economic structure. [Text] [Xian Shaanxi Provincial Service in Mandarin 1130 GMT 24 Dec 84 HK]

ECONOMIC BREAKTHROUGH -- Beijing, 28 Dec (XINHUA)--Soon 1984 will be over and will go down in history as a year of economic breakthrough. Please note the following facts: According to a recent estimate made by the State Statistical Bureau, China's total industrial and agricultural output value this year will exceed 1 trillion yuan, up 21 percent from last year. Agriculture was the first thing reformed in China, and the country reaped another bumper harvest this year. The per capita grain possession among China's 1 billion people exceeded 800 jin in 1984, catching up with the world's average for the first time. People worried about China's energy production a few years ago. The energy industry has regained initiative in 1984, in which the crude oil output has reached some 110 million metric tons, breaking through the fluctuation around a little over 100 million metric tons in the 6 preceding years. [Xu Yaozhong and Yu Youhai] [Excerpts] [Beijing XINHUA Domestic Service in Chinese 1140 GMT 28 Dec 84]

## PROVINCIAL AFFAIRS

### HEILONGJIANG STATISTICS ON 1984 ECONOMIC DEVELOPMENT

SK081022 Harbin HEILONGJIANG RIBAO in Chinese 22 Dec 84 p 1

[Text] Following an overall appraisal of our province's economic development, the provincial statistical bureau announced recently that an unprecedentedly gratifying situation has appeared in the province's economy, and all fronts have accelerated the restructuring of the economy and their production is full of vitality.

Remarkable results were achieved in rural economic reform, a historical record was created in grain output, and peasant's income rose to an unprecedented level. A total of 98.7 percent of the province's villages have instituted the household output-related contract system. The number of households specialized in commodity production, increased by 188,000 over last year, 32.3 times last year's number. Villages engaged in specialized production reached 1,447 in the province, amounting to 8.6 percent of the total, and economic associations of various types reached 19,000, increasing by 4.5 times over last year. The rural economy has been expanded from unitary agricultural production to one which includes industry, commerce, communication and transport, a building industry, and various service trades. The province's grain output exceeded 35 billion jin, 4 billion jin over last year and a historical record. Agricultural output value is expected to reach 12.15 billion yuan, an 8.5-percent increase over last year. Households whose net income exceeded 10,000 yuan increased to 20,619, a 4-fold increase over last year. Households selling more than 10,000 jin of grain to the state increased to 264,000 more than 200 percent over last year. Peasant's income may reach 390 yuan per capita, a net increase of some 20 yuan over last year.

The economic results in industrial production greatly improved, and state-assigned output quotas for many important products were prefulfilled. The province's industrial output value is expected to reach 31.4 billion yuan, around 9 percent more than last year. From January to November, industrial enterprises covered by the local budget increased their profit by more than 30 percent over that of the corresponding period last year, and their profits and taxes paid to the state totaled 1.16 billion yuan, 12.9 percent over that of the corresponding period last year. The state-assigned annual quotas for the output of such products as crude oil, raw coal, electricity, rolled steel, pig iron, cement, chemical fertilizer, tires, machine-made paper, sulphuric acid, and chemical fibers were prefulfilled.

The scope of capital construction was brought under control, the construction of key projects was expedited, and more foreign funds were used. From January to November, total investment in the province's 2,096 capital construction projects was 2.97 billion yuan, showing an 0.8-percent growth over that of the same period last year. Investment in productive projects and state projects grew quicker than in nonproductive and local projects. Investment in key energy and communications projects increased by 14 percent over that in the corresponding 1983 period. Of this, investment in the coal industry grew by 21.2 percent, in the power industry by 6.5 percent, and in communications and transport departments by 13.7 percent. This year, 16.8 percent more foreign capital was used than last year.

Movement between towns and the countryside was expanded. Thanks to the circulation channels opened by the state, the collectives, and the individual, commercial shops were set up in all urban and rural areas. The commodity purchasing volume of the province's state commercial units is expected to reach 12.3 billion yuan, 13.4 percent more than last year, and the total commodity retail sales volume is expected to reach 14 billion yuan, 13.2 percent more than last year. Direct purchases of farm and sideline products from peasants increased by a large margin. The sales of various manufactured goods, in particular readily-marketable expensive durable manufactured goods, nonstaple foods, garments and means of agricultural production, showed remarkable increases.

CSO: 4006/257

PROVINCIAL AFFAIRS

BRIEFS

JILIN TOWNSHIP ENTERPRISES--Township enterprises were developed vigorously in Jilin Province in 1984. They were staffed with 470,000 laborers, accounting for 11 percent of the total rural labor force; created 2.13 billion yuan of output value, showing a 32-percent increase over 1983; realized 200 million yuan of profits, more than 20 percent over 1983; and paid more than 80 million yuan of taxes to the state, an increase of 33.3 percent over 1983. [Excerpt] [Changchun Jilin Provincial Service in Mandarin 2200 GMT 1 Jan 85 SK]

SUBSIDIES TO XIZANG--Lhasa, 30 Dec (XINHUA)--China's central government has decided to allocate 749.73 million yuan in financial subsidies to the Tibet Autonomous Region in 1985, according to the regional department of finance. This will bring the total subsidies from 1952 to 1985 to 8,547 million yuan, an official said. Thanks to massive subsidies, Tibet has made great strides since 1951, when it was peacefully liberated. Starting from scratch, the region has set up a number of small and medium-sized power plants, woolen mills, tanneries, and food, printing and building materials factories, especially small handicraft works serving local needs. It reaped a good grain harvest this year, despite three consecutive years of natural disasters. Grain output in Tibet topped 480,000 tons this year--26 percent more than last year, and three times the amount of 1952. The number of domestic animals in stock this year is 2.2 times that of 1952. [Text] [Beijing XINHUA in English 0656 GMT 30 Dec 84]

NINGXIA ECONOMIC DEVELOPMENT--Yinchuan, 20 Dec (XINHUA)--In 1984 Ningxia made remarkable achievements in developing its economy. The industrial output value for the year is expected to reach 1.82 billion yuan, up by 12.9 percent compared with the preceding year, and total agricultural production value will be 960 million yuan, an increase of 8.6 percent. Grain production for the year is expected to hit 3 billion jin, or some 100 million jin more than in the preceding year. Financial revenue thus far has reached 195.92 million yuan, surpassing the preceding year by 22 percent. Peasants' net income for the year is estimated to be 11 percent higher than in the preceding year, and the increase in the average wage of staff members and workers will be no less than 4 percent. [Summary] [Beijing XINHUA Domestic Service in Chinese 1521 GMT 20 Dec 84 OW]

**GUANGXI INSPECTION TOUR**--After inspecting nationality work in our region, Seypidin, vice chairman of the NPA Standing Committee, left Nanning by plane this afternoon. Huang Rong, chairman of the Regional People's Congress Standing Committee; and Comrades Zhong Feng, Li Yindan, and Wei Zhangping, vice chairmen, went to the airport to see him off. During his stay in Guangxi, Seypidin, vice chairman of the NPC Standing Committee, listened to reports on the situation in our region's nationality work and its reform of the economic structure, inspected the Guangxi Nationality Institute, the Guangxi Art Institute, the Guangxi School of Tibetan Language, some factories in Nanning City, and rural schools in Shuangqiao Township, Wuming County. He visited the light and textile industrial products fair held in Nanning. Seypidin, vice chairman of the NPC Standing Committee, affirmed the achievements in nationality work made by our region and put forward views on how to further do nationality work well. [Text] [Nanning Guangxi Regional Service in Mandarin 1130 GMT 2 Jan 85]

CSO: 4006/257

ECONOMIC MANAGEMENT

STATE COUNCIL APPROVES SHENYANG REFORM PLAN

OW291429 Beijing XINHUA Domestic Service in Chinese 0042 GMT 29 Dec 84

[Text] Shenyang, 29 Dec (XINHUA)--The State Council has formally approved a "report on Shenyang City's plan for a trial comprehensive reform of economic structure," submitted by the Liaoning Provincial People's Government.

A circular issued by the General Office of the State Council on 18 December points out: Shenyang City is an important economic center and industrial base in our country's northeastern region. To do a good job in the comprehensive reform of Shenyang City's economic structure is of great significance for bringing into play the role of an urban center, restoring vigor to an old industrial base, and promoting the economic development in Liaoning and the northeastern region. The circular calls on Shenyang City to pay attention to bringing into play the initiative and creativeness of all quarters and strive to do a good job in the trial comprehensive reform of the economic structure.

In July this year, the State Council agreed to let Shenyang City conduct a trial comprehensive reform of its economic structure and gave the city a provincial-level economic management power. Then the Shenyang City People's Government organized discussions among the broad masses of the cadres and the people on how to do a good job in the trial comprehensive reform of the economic structure, and formulated a "plan for a trial comprehensive reform of Shenyang City's economic structure." The plan puts forward specific concepts and measures for exercising provincial-level economic management power and for accelerating technical transformation of enterprises. It also puts forward specific concepts and measures for reforming the planning system, the enterprise management system, the circulation system, the finance, tax and banking system, the foreign economic relations and trade system, the wage structure, the urban construction system, the scientific research management system, the structure and management of enterprises, and government departments.

CSO: 4006/257

## FINANCE AND BANKING

### XINHUA REVIEWS BEIJING AREA NEWS

OW050912 Beijing XINHUA in English 0901 GMT 5 Jan 85

["Beijing News in Brief"--XINHUA headline]

[Text] Beijing, 5 Jan (XINHUA)--Bank deposits hit 3.8 billion yuan. Deposits in Beijing's banks totalled 3.8 billion yuan at the end of 1984, including 3.1 billion yuan from urban residents--27 percent more than in 1983--and 740 million yuan from rural residents--41.2 percent up.

These figures from the Beijing Industrial and Commercial Bank and the Agricultural Bank are reported by the BEIJING DAILY today.

Meanwhile, the total cash volume of retail sales in 1984 increased by 21.6 percent over 1983, due to the increasing sales of color TV sets, refrigerators, washing machines, etc.

Record income for Beijing rural enterprises. Enterprises run by rural towns around Beijing enjoyed an all-time high income of 3 billion yuan in 1984, 26.2 percent more than in 1983.

In 1984, 7,000 new enterprises were set up in the rural towns, bringing the total to 16,000, according to a survey by the rural enterprise bureau of Beijing municipality.

The survey says most of the enterprises are operating under economic contracts and the system of directors assuming full responsibility.

Beijing milk supply up by one-third. About 100 million litres of fresh milk were sold in Beijing in 1984, one-third more than in 1983.

By the end of 1984, 335,000 litres of fresh milk were sold daily in the city, 105,000 litres more than in 1983.

More people began to put in standing orders for milk. There were 700,000 regular milk drinkers in the city in 1984, 200,000 more than in 1983. Some 120,000 students and schoolchildren in the city have started to get milk supplied between classes.

Dairies have developed rapidly in the capital, with 37,000 head of dairy cattle, 12 percent more than in 1983.

## FINANCE AND BANKING

### HOW CAPITAL CONSTRUCTION CAN INHIBIT CURRENCY CIRCULATION

Beijing CAIMAO JINGJI [FINANCE, TRADE AND ECONOMICS] in Chinese No 5, 11 May 84 pp 21-22, 49

[Article by Li Shourong [2621 1343 2837] of the Bank of China: "The Effects on Currency Circulation of Overexpanding the Scale of Capital Construction"]

[Text] Maintaining stability of currency is a necessary condition for carrying out our nation's socialist modernization. After the 3d Plenary Session of the 11th CPC Central Committee, a series of policies and measures to stabilize the currency was carried out. Irrational issuance of currency was strictly controlled. A lot of effort was made in withdrawing currency, and gradually, the amount of currency in circulation in the market matched the need for the circulation of commercial products. The glut of paper money in the market visibly improved.

But, the amount of currency issued in 1983 was greater than in past years, and the withdrawal of currency was unsatisfactory. By the end of June, the amount of currency in circulation showed an increase of more than 7 billion yuan over the same period of the previous year, an increase of 20 percent. This is the highest amount of currency issued during the same period over the past few years. It has greatly surpassed the growth rate of the total value of industrial production and the growth rate of retail sales of commodities. The amount of currency issued during the whole year greatly surpassed the planned amount of issue as a result of many factors. One important factor was that the scale of capital construction was too large, and investment in capital construction became inflated.

For example, total investment in capital construction in 1982 reached 55.5 billion yuan, surpassing the planned investment by 11 billion yuan, an increase of 11.2 billion yuan over the previous year, and obviously an over-extension of the state's financial capacity. In addition, during the first half of 1983, inflation of investment in capital construction was not effectively controlled. Extra capital construction projects at some localities and in some sectors still went ahead. We know that our national income level is not high, and the capital that can be taken from annual national income for capital construction is very limited. During the 4 years from 1979 to 1982, even though national income increased somewhat, the annual average was only over 30 billion yuan, about 70 percent of which was used

as expenses for the increased population, expenses to improve the people's living standards and for social and collective welfare endeavors. The remaining 30 percent, about 9 billion yuan, was available for use as general savings. Of this 9 billion yuan, some belonged to the peasants and economic units of the collective ownership system, and it was not possible for the state to amass all of it. Thus, the capital that the state can appropriate annually for investment in capital construction is relatively small. If we proceed without measuring our own strength and appropriate too many funds for investment in capital construction, capital construction will squeeze out consumption, light industry and capital for the markets. The result would be a glut of paper money in the market, a rise in commodity prices and a tight market.

In actual work, we have found that when the scale of capital construction is too large, it will affect currency circulation in the market in four main ways:

I. An Overly Large Scale of Capital Construction Will Create an Imbalance Between Accumulation and Consumption and Adversely Affect the Stability of Monetary Value.

For many years, the negative and positive experience in our nation's economic buildup have repeatedly shown that the compatibility between the scale of the state's capital construction and its capabilities and the balance between accumulation and consumption are prerequisites to stability of currency circulation on the market. For example, during 1977 and 1978, capital construction progressed too vigorously, as the percentage of accumulation respectively reached 32.3 and 36.5 percent. Especially during the second half of 1978 when the scale of capital construction had already been inflated, investment in capital construction further increased by a large amount, such that in that year, several billion yuan of additional paper money were issued, market supply tightened, and prices of some commodities rose. The 3d Plenary Session of the 11th CPC Central Committee decided to implement the policy of overall readjustment of the national economy and the balance of accumulation and consumption. By 1981, readjustment of China's national economy realized visible results. That year, state-owned units invested a total of 42.8 billion yuan in capital construction, a reduction of 20.6 percent from the previous year. Of this, 20.8 billion yuan were included in the state budget as investment, a drop of 26 percent from the previous year. Throughout the year, a total of 151 large and medium projects were terminated or postponed. At year's end, 663 large and medium projects were under construction, 241 fewer than the previous year. The amount of accumulation as a percentage of national income dropped from 36.5 percent in 1978 to 28.3 percent in 1981. Production of daily consumer goods developed relatively quickly, the shortage in the supply of commodities on the market during the past was greatly improved, and the currency was basically stable.

## II. An Overly Large Scale of Capital Construction Will Surely Destroy the Overall Balance of Financial Credit and Revenue and Expense and Lead to Currency Issuance for Financial Purposes.

Currency is channeled into the market via credit and loans. Whether credit revenues and expenditures can maintain a basic balance is the gate that controls whether cash revenue and expenditure can maintain a basic balance, and the balance between credit revenues and expenditures is in turn limited by the balance of financial revenue and expenditure. Therefore, to realize stability in currency, a comprehensive balance in financial credit and loans must be realized. Comrade Chen Yun also pointed out, as long as financial revenue and expenditure and credit revenue and expenditure are balanced, then on the whole, society's purchasing power and the supply of materials will also be balanced. This is because government finances and funds for credit and loans all represent currency, and while currency is the exchange medium for materials, every dollar of currency must be backed by an equivalent amount of material. Only in this way can the balance between society's purchasing power and material supply be maintained. As described above, the amount of the annual national income that can be used as investment for capital construction is less than 10 billion yuan, a very small amount. If the scale of capital construction is too large and surpasses that allowed by the state's financial capacity, expenditures will outstrip revenues and a significant deficit will appear. At this time, government finances will pressure the banks generally by overspending bank funds while borrowing from them, thus creating a larger discrepancy in the banks' credit revenue and expenditure, thereby forcing the banks to issue more paper currency. This is described in general by the following saying which summarizes historical experience: "Capital construction squeezes government finance, government finance squeezes the banks, the banks issue paper money." The amount of currency issued in such a case has no material foundation. It is issuance of currency for fiscal reasons and it directly affects the stability of currency circulation.

Comparison of the issuance of additional currency in 1983 and the previous 2 years shows that the percentage of currency issued for fiscal purposes increased. The amount of currency issued during the previous 2 years was larger because a fairly large portion was issued as a result of the widespread implementation of many forms of the production responsibility system in the rural areas, the great development of the collective economy and the individual economy in a large number of cities and towns and the increase in industrial and commercial enterprises and units. They increased the links of capital turnover in currency circulation and units that absorb currency. The intake volume of currency increased. Such factors were few in 1983, and conversely, because of government overspending, bank financing, spending of borrowed funds, and financial spending through other channels and borne by banks increased. For example, price subsidies for government procurement of agricultural sideline products increased, losses suffered in procuring export products by foreign trade agencies at high prices increased, the amount of taxes submitted to the government by some enterprises dropped, and so on. All of these directly affect the balance between government revenue and expenditure and create the issuance of currency for financial purposes.

### III. An Overly Large Scale of Capital Construction Will Squeeze Agriculture and Light Industry and Weaken the Material Foundation for Stabilizing Currency.

Currency is the medium of commodity exchange. The amount of currency in circulation should correspond more or less to society's needs for commodity circulation. An abundant supply of commodities on the market is the material foundation for stabilizing currency. The daily necessities purchased by people derive mainly from agriculture and light and textile industries while most of the investment in capital construction is used to develop heavy industry. According to data compiled by the National Bureau of Statistics, for each 100 million yuan increase in capital construction investment, there should be an increase of 160 million yuan in the production value of heavy industry. When the scale of capital construction is too large, the limited amount of state construction capital is largely concentrated in the sector of heavy industry, and agriculture and light industry suffer. And in particular, the growth rate of light industrial production visibly slows. In 1982, the scale of capital construction was too large, the rate of development of heavy industry was too fast, and the squeeze on light industry was more obvious. In that year, heavy industry grew by 9.9 percent, greatly surpassing the 5.7 percent growth in light industry (the planned growth of 7 percent was not even realized). In 1983, the squeeze on light industry by heavy industry was not effectively turned around. It is estimated that the annual growth of heavy industry will be over 12 percent but light industry will only be able to grow by 7.5 percent, still much lower than the growth rate of heavy industry. The rate of production of some high grade durable consumer goods such as television sets, washing machines, and refrigerators slowed and for some it even decreased, and supply could not meet the market demand. Especially in recent years, the rural area underwent economic reforms and broke away from "eating from the big pot" of the past, productive relations gradually matched the level of development of productivity, agricultural sideline production developed greatly, and the farmers' cash income greatly increased. During these few years, paper currency was mainly issued to the rural areas, but the supply of production and household materials urgently needed by the farmers could not catch up, and this affected the recovery of currency. This is also an important reason for the glut of paper currency on the market.

### IV. An Overly Large Scale of Capital Construction Increases Consumption Funds and the Issuance of Currency.

At present, material incentives for enterprises, various subsidies and other cash expenditures have greatly increased, consumption funds have increased too quickly, surpassing the growth in the rate of labor production and causing the society's purchasing power to surpass the supply of commodities and thus affecting the stability of currency value. Although there are many factors that created the overly fast increase in consumption funds, the overly large scale of capital construction is an important one. This is because after the scale of capital construction becomes large, expenditures for labor, for land and for moving facilities elsewhere correspondingly increase by necessity. At the same time, because capital construction was

carried out in a big way, the supply of building materials could not meet demand, and this increased the percentage of building materials supplied at negotiated prices. The prices of building materials rose, and the percentage of investment for capital construction to be paid in cash increased. According to typical surveys, the percentage of investment for capital construction paid in cash has increased from 20 to 30 percent in the past to about 40 percent. Thus an annual increase of 10 billion yuan in investment for capital construction requires an additional 4 billion yuan in circulating currency on the market. This has a substantial adverse effect on currency circulation. Some comrades believe that after funds for consumption increase, bank savings will correspondingly increase, currency will return to the banks, and this will not be a very harsh blow to the market. We believe that this view is one-sided. Recently, leading comrades of the Central Committee have repeatedly pointed out that when commodity prices rise above a certain level, the people will withdraw their savings and cause a run on the banks. Then, we will not be able to handle the situation and serious problems will occur. At present, one-third of the banks' funds for credit and loans comes from people's savings. This is a "large reservoir." There are advantages to expanding this reservoir, but there must be a safety line. The growth in bank savings must be concretely analyzed; we cannot say the more bank savings the better. In general, the growth of consumption funds must be controlled so that they will match the supply of commodities in society and maintain the basic stability of commodity prices in the market.

In summary, strictly controlling the scale of capital construction so that it matches the state's ability to realize a planned, proportional and coordinated development of the national economy is the prerequisite for maintaining currency stability. Yet to realize this, it is of fundamental importance that capital construction must follow a strategy of proceeding with full awareness of its abilities and limits, the planned nature of the national economy must be strengthened, and in particular, control over unbudgeted funds must be tightened, and finances, credit and loans, materials and foreign exchange must be comprehensively balanced.

9296  
CSO: 4006/636

**INDUSTRY**

**HEILONGJIANG INDUSTRIAL PRODUCTION INCREASES SUBSTANTIALLY**

**SK101448 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 9 Jan 85**

[Text] According to the statistics published by the provincial Statistical Bureau on 9 January, the 1984 provincial industrial output value and the profits and taxes delivered by industrial enterprises showed substantial increases. The 1984 total industrial output value was 31.367 billion yuan, a 9.2-percent increase over the previous year, and overfulfilling by 1.22 billion yuan the target of scoring a 5-percent increase in output value which was set at the beginning of 1984. In 1984, industrial enterprises delivered 326.44 million yuan of profits and taxes, overfulfilling the annual target by 30.03 million yuan. The year 1984 was a record year in the industrial production since the 3d Plenary Session of the 11th CPC Central Committee.

In 1984, the province's industry developed proportionately and rapidly in the course of the economic structure reform. Output value created by the state- and collective-run industrial enterprises increased by 9.1 percent and 10 percent, respectively over the previous year. Light industrial enterprises continually made a relatively rapid progress, and their output value increased by 12.2 percent over the previous year. Heavy industry was restored at a relatively rapid speed, and the heavy industrial output value increased by 7.7 percent over the previous year.

Along with the increased production, quality of products was improved. In the 1984 national appraisal for product quality, our province won 4 gold medals, 27 silver medals and 80 ministry prizes. Our province has won more than 100 gold and silver medals accumulatively.

CSO: 4006/257

## INDUSTRY

### BRIEFS

METALS INDUSTRY DEVELOPMENT--Beijing, 29 Dec (XINHUA)--The CPC Central Committee and the State Council recently issued instructions on developing the Chinese nonferrous metal industry. The instructions pointed out: In view of the fact that China has rich deposits of nonferrous metals, we must actively support the development of the nonferrous metals industry. We must adhere to the principle of vigorously developing large mines and relaxing control over development of small mines. We must give priority to developing aluminium, actively develop lead and zinc, conditionally develop copper, and selectively develop other metals. Fei Ziwen, general manager of the China Nonferrous Metals Industrial Corporation, relayed the above instructions at today's national telephone conference on nonferrous metals industry. Fei Ziwen said: In accordance with the guidelines of the instructions by the CPC Central Committee and the State Council, we must accelerate the development of the nonferrous metals industry. In addition to state investments, we must actively support the localities in developing the various mines. We must relax control and let the peasants develop small mines. The concerned departments must strengthen guidance on technology and safety in production. [Zhang Jinsheng] [Excerpts] [Beijing XINHUA Domestic Service in Chinese 1710 GMT 29 Dec 84]

JILIN INDUSTRIAL OUTPUT VALUE--According to statistics revealed by Gao Dezhan, vice governor of Jilin Province, the total industrial output value of Jilin Province in 1984 is estimated at 18.5 billion yuan, an increase of some 12 percent over 1983. In the industrial sector, total profits increased some 30 percent, profits handed over to the state increased 20 percent, and the total revenue increased 17 percent over 1983. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 2 Jan 85 SK]

SHANGHAI POLYESTER SPINNER--Shanghai, 18 Dec (XINHUA)--A high-speed long-fiber polyester spinning machine has been successfully made by the Huadong Textile Engineering College and the Shanghai Synthetic Fiber Research Institute with the cooperation of other related units. The machine, capable of producing 4,000 meters of long-fiber polyester yarn per minute, passed the technical tests at a meeting on 18 December sponsored by the Ministry of Textile Industry. The designing and building of such a machine is a key project under the national program of science and technology. [Summary] [Beijing XINHUA Domestic Service in Chinese 1525 GMT 18 Dec 84]

XINING INDUSTRIAL PRODUCTION--In 1984, Xining City's gross industrial output value was 360.84 million yuan, which was 6.76 percent more than the quota for the whole year. The city fulfilled the quota stipulated by the state's Sixth 5-Year Plan 1 year ahead of schedule. [Summary] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 7 Jan 84 HK]

CSO: 4006/257

## CONSTRUCTION

### TIANJIN VICE MAYOR ON 1985 DEVELOPMENT PLANS

OW090901 Beijing XINHUA in English 0633 GMT 9 Jan 85

[Text] Tianjin, 9 Jan (XINHUA)--Tianjin will make further efforts toward becoming an international and domestic trade center in 1985, according to Vice-Mayor Li Lanqing.

The northeast China municipality will continue upgrading its factories through joint ventures and technology imports, to help bring its 80 leading products up to international standards, Li told XINHUA.

The products included color televisions, refrigerators, engineering machinery, wrist watches, washing machines, light trucks, tires and cameras, he added.

Preparations for the first phase of Tianjin's special foreign investment zone will be finished within the next 6 months.

Construction will begin in the second half of this year. According to an initial plan, 150 electronics, machinery, chemical, food processing and building materials factories will be built in the zone.

Tianjin is one of 14 Chinese coastal cities recently opened to foreign investment.

In keeping with its development schemes, the municipal government also plans to pay more attention to improving local living conditions, Li said. A special area of restaurants and food shops opened at the beginning of the year, and more streets will be set aside for recreation facilities, hotels and joint venture businesses. The business street will feature imported products and goods manufactured by joint ventures.

Service facilities will also be improved this year, the vice-mayor said. Programs include improving Tianjin's port facilities, building a new expressway to Beijing and widening the existing highway to nearby port of Tanggu, and importing a computerized telephone exchange to provide direct dialing on 10,000 new international lines.

Construction of five new hotels and two restaurants will begin or be completed in 1985, Li said.

Work will also continue on centers for international trade, international fairs and scientific and technological exchanges, and housing for foreign experts working in China.

To keep pace with its development, Tianjin will put more stress on personnel training this year, Li added. An initial group of more than 200 college graduates have been sent to colleges and universities for advanced professional and foreign language studies. After graduation, some will also be chosen to study abroad.

CSO: 4006/257

CONSTRUCTION

CONSTRUCTION FOR TRUCK PLANT BEGINS IN BEIJING

OW080843 Beijing XINHUA in English 0704 GMT 8 Jan 85

[Text] Beijing, 8 Jan (XINHUA)--Construction of a new joint venture motor vehicle plant has started in Huairou County, in northern Beijing, today's BEIJING DAILY reports.

The Beijing-Huairou Motor Vehicle Enterprise, which was founded by the Beijing motor vehicle plant and the Huairou County People's Government yesterday, will produce 100,000 light trucks and other vehicles annually when it goes into operation in 1993.

Beijing's largest urban-rural joint venture, it will involve an investment of 500 million yuan (about US\$18.5 million).

The Beijing motor vehicle plant will be responsible for all technology and equipment, while Huairou County will contribute 120 hectares of land and build the factory buildings.

The joint enterprise will have a workforce of about 100,000 in 8 years' time, all of whom will have to undergo regular training at schools.

Beijing Vice-Mayor Zhang Jianmin said at yesterday's founding ceremony that the new plant would help readjust the irrational industrial layout of the capital's urban areas, and aid the growth of rural industries on its outskirts.

CSO: 4020/70

TRANSPORTATION

SHEN TU ADDRESSES CAAC PLANNING CONFERENCE

OW022000 Beijing Domestic Service in Mandarin 1200 GMT 30 Dec 84

[Text] Speaking at a national civil aviation planning conference which ended on 29 December, Shen Tu, director of the Civil Aviation Administration of China, said: A serious problem in the current civil aviation is the difficulty of purchasing a ticket, which is caused by insufficient transport capacity. In order to solve this problem, it is necessary to first make reform to improve the management and operations and harness the enthusiasm of all staff members and workers of the Civil Aviation Administration to meet the needs of the development of the new situation.

Shen Tu said: The utilization rate of existing equipment, especially aircraft, should be increased. Newly acquired aircraft should be put into operations in good time in order to make good use of them as soon as possible. It is necessary to effectively spend the limited financial resources by using less money to do more things. At the same time, efforts should be concentrated on key construction projects in order to prevent overstretching the scope of capital construction. It is necessary to strengthen the leadership over professional training and raise the quality of the staff members and workers.

Leading bodies that lack the courage to make reform and the confidence to improve service quality should be firmly readjusted. Persons who shield each other or evade responsibility for blunders in work should be duly handled. Staff members and workers who work carelessly and do not observe discipline should be criticized and given necessary disciplinary action. Persons involved in serious cases should be dismissed and should not be tolerated. It is necessary to fully mobilize the enthusiasm of local people in accelerating the development of the civil aviation work.

At present, various localities are facing the urgent needs for opening up new aviation routes, increasing flights, purchasing aircraft, and building airports. We should adopt various measures under available conditions to meet their needs. In building airports, it is necessary to absorb more local investment and render special assistance to the construction of airports in the open cities and remote frontier areas.

CSO: 4006/257

## TRANSPORTATION

### CONFERENCE DISCUSSES CIVIL AVIATION IMPROVEMENTS

OW281125 Beijing XINHUA Domestic Service in Chinese 0831 GMT 25 Dec 84

[By reporter Zhang Jinsheng]

[Text] Beijing, 25 Dec (XINHUA)--The National Civil Aviation Planning Conference now underway in Beijing points out that how to improve service quality remains an outstanding problem in air transport. The Civil Aviation Administration of China will take further steps to strengthen service management and improve service level by doing its best to proceed from the need to make things convenient for the travelers and facilitate economic development.

Because of the cooperation and coordination among their various organizations, the civil aviation departments have had no serious accidents so far this year despite extremely busy air transport schedules. The rate of accident-producing situations [shi gu zheng hou 0057 2399 1767 0230] has dropped by 12 percent while that on-time flights risen 6.9 percent as compared to the same period last year.

The National Civil Aviation Planning Conference points out: Civil air transport still has some problems in the area of service, notwithstanding the better achievements made this year. For example, the poor work efficiency and poor attitude of the service personnel, low rate of on-time flights and backward ground service facilities are the cases in point. Measures must be taken to actively solve these problems.

The conference suggests: Civil aviation departments must do a good job in the building of various safety-guarantee facilities with guaranteeing flight safety as the prerequisite next year. They should reform the process of transport service, proceed from the desire to make things convenient for the passengers in arranging flights, shorten the transient time, see that connecting flights are well coordinated, and make further efforts to increase the rate of on-time flights. They should make more ground service facilities of various kinds available and apply computers in ticket reservations and sales as soon as possible so as to make things easy for the passengers.

To meet the need to invigorate the domestic economy and open to the outside world, the civil aviation departments will build or expand a number of airports next year. This will include the projects to expand the airports in Dalian, Haikou, Qingdao, Changchun, Shenyang, and Shantou cities; the projects of continued construction of the civil aviation stations in Yantai, Ningbo, and Sanya; and the new airport projects in Chongqing, Beihai, Wenzhou, and Meixian County. In addition, the civil aviation station projects in Qinhuangdao, Nantong, Yancheng, Lianyungang, and Jiujiang cities will be completed and put into operation next year.

## TRANSPORTATION

### BRIEFS

JILIN HIGHWAY TRANSPORT ENTERPRISES--State-run highway transport enterprises netted 9.85 million yuan of profits in 1984, thus ending deficits for the first time. [Excerpt] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 2 Jan 85 SK]

HEILONGJIANG WATER TRANSPORTATION--According to statistics of the Heilongjiang Shipping Bureau, new records were once again set in water transport on the Songhua Jiang, Heilong Jiang, and Wusuli Jiang this year. Their volume of goods transported and rotation volume of goods transport showed an 8.6-percent and 14.7-percent increase over last year, respectively. [Excerpt] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 31 Dec 84 SK]

HIGHWAY TRANSPORT PLANS--As of 30 December China has overfulfilled this year's plans for highway passenger and freight transport. Buses and trucks for business use transported more than 3.77 billion people and more than 640 million tons of goods, exceeding the annual plans by 7.7 and 1.7 percent respectively. Volume of highway freight was more than 33.8 billion ton-kilometers, up 16 percent over the same period last year. [Text] [Beijing Domestic Service in Mandarin 1200 GMT 30 Dec 84]

MILITARY RAILWAYS CONVERSION--Beijing, 22 Dec (ZHONGGUO XINWEN SHE)--Personages in China's military circles have decided to turn 73 military railways located respectively in Shanghai, Jiangsu, Fujian, Jiangxi, Zhejiang, and Anhui over to civilian use. Transport businesses will formally start 1 January 1985. These military railways are perfectly equipped, but the freight volume is limited. Moreover, some are left idle, which cannot make the best use of the military railways. By opening the military railways to the localities, it will help mitigate the strained state of transport in certain areas in the east China region. At present the military circles are consulting with the localities on problems concerning transport procedures, charges, distribution of income, and so on. [Text] [Beijing ZHONGGUO XINWEN SHE in Chinese 0827 GMT 22 Dec 84]

ZHICHENG-LIUZHOU RAILROAD--Changsha, 3 Jan (XINHUA)--The Zhicheng-Liuzhou railroad, a south-north main railroad, formally became operational on the 1985 New Year's Day. The railroad, leading from Zhicheng of Hubei Province to Liuzhou of Guangxi Region, is 883 km long, including some 220 km of tunnels and bridges. Since it became temporarily operational in 1979, the railroad has shared the burden of a large quantity of freight with such main railroads as the Beijing-Guangzhou railroad and the Hunan-Guizhou railroad. In the meantime, it has completed a number of auxiliary projects and enabled itself to become fully operational. The Zhicheng-Liuzhou railroad, after becoming operational, will plan an important role in promoting the economic development in the mountainous regions in western Hunan and Hubei and northern Guangxi. [Xu Qin] [Text] [Beijing XINHUA Domestic Service in Chinese 0906 GMT 3 Jan 85]

## CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

### PRC JOURNAL ON SOVIET-U.S. ECONOMIC BALANCE

HK241002 Beijing GUOJI WENTI YANJIU in Chinese No 4, 13 Oct 84 pp 37-56

[Article by Gao Shi [7559 4258]: "The Soviet-U.S. Balance of Economic Strength and Trends Through the End of the 1980's"]

[Text] It is extremely important to correctly analyze and appraise the Soviet-U.S. balance in economic strength, because it is one of the basic factors deciding Soviet-U.S. relations, the status of their contention, and the strategy and tactics of both sides.

The Soviet-U.S. balance in economic strength is a complicated matter. Statistics on the speed of economic development, national income, gross national product, and the industrial and agricultural output value of the two countries cannot fully reflect this balance. When analyzing this problem, some other factors concerning the two countries, such as their economic and technical levels, their economic results and efficiency, their economic structures, their natural resources, their external economic influence, and their contention in the most advanced technical field, must also be taken into consideration.

This article will try to compare the economic strength of the Soviet Union and with that of the United States in light of the above-mentioned factors.

#### I. The Rate of Economic Development and a General Balance in Economic Strength

##### A. Changes in the postwar Soviet-U.S. balance in economic strength.

After the end of the war, as the Soviet Union threw more funds, labor, and material resources into its economic development, the rate of its economic development was higher than that of the United States. According to official Soviet figures, from 1950 to 1975, the average annual growth rate of the Soviet national income was 8.1 percent, while that of the United States was 3.5 percent, and its average rate of growth in industrial output value was 9.55 percent, while that of the United States was 3.45 percent. Thus, there was a favorable turn for the Soviet Union in the balance of economic strength. According to Soviet figures, in 1950 the Soviet national income was only about 31 percent of that of the United States, it rose to 50 percent in 1957, to 59 percent in 1965, and to 67 percent in 1975.

Although the method and results of U.S. statistics differ from those of the Soviet Union, they also reflect this trend of development. According to the U.S. Department of Commerce, from 1950 to 1975 the average rate of growth of the USSR's GNP was 5.25 percent, while that of the United States was 3.35 percent. The Soviet GNP was about 33 percent of that of the United States in 1950, and it rose to 44 percent in 1960, and to 49 percent in 1970. In 1975, it had already reached 53 percent of that of the United States.<sup>1</sup>

The situation changed after 1975. Due to aggravating economic difficulties, the rate of Soviet economic development began to drop and it began to lose its superiority over the United States in this respect. The trend of a favorable turn for the Soviet Union in the Soviet-U.S. balance of economic strength stopped developing. Judging from the statistics promulgated by the Soviet Union after 1975, the main figures that reflect the balance in economic strength, such as national income, gross industrial and agricultural output value, and labor productivity, did not increase further compared with 1975. In the west, people hold different views of the change in the Soviet-U.S. balance in economic strength after 1975. For example, (Grossman), a famous U.S. scholar specializing in the Soviet economy, holds that there is a greater gap between the Soviet Union and the United States in economic strength. The average growth rate of Soviet GNP from 1976 to 1980 was 2.8 percent, while that of the United States was 4.1 percent.<sup>2</sup> However official U.S. data shows that the Soviet-U.S. balance in economic strength remained basically unchanged after 1975.

#### B. Prospects for the rates of economic development of the Soviet Union and the United States in the mid- and late-1980's.

The 1980's is a period in which the Soviet economy will continue to change from the extensive to the intensive. Generally speaking, the basic trend of economic development of the Soviet Union in the mid- and late-1980's is: less investment will be made, but better results will be achieved; the situation in respect of natural resources will further deteriorate and the oil problem will become more serious, but positive results will be achieved in efforts to save energy; the labor force shortage will become more serious, but progress may be made in the efforts for savings in the labor force; the economic system will continue to obstruct the development of productive forces, but certain reforms will be carried out and more applicable and flexible policies will be adopted.

In the mid- and late-1980's, the Soviet economic situation will not improve fundamentally—it will continue to be a difficult situation—but it is not likely to further seriously deteriorate. There are two appraisals among Soviet scholars on the rate of economic growth in the coming period. Some people hold that it will reach 4-5 percent, while some others hold that it will be less than 3 percent. However, the CIA holds that the actual growth rate of the Soviet economy will be limited to 1 to 2 percent in the coming period. Judging from the above-mentioned factors, which have a bearing on Soviet economic development, it can be predicted that the U.S. appraisal is on the low side, while that of 4 to 5 percent is probably on the high side. For the whole period of the 1980's, the possible average growth rate of the Soviet economy is about 3 percent.

The U.S. economic situation in the 1980's will not improve much compared with the 1970's. In the 1970's, having experienced two energy crises due to skyrocketing oil prices and two economic crises characterized by stagnation and inflation, the average U.S. GNP rate was 2.9 percent.<sup>3</sup> The development of the U.S. economy in the mid and late 1980's will be faceted with the following unfavorable and favorable factors:

The unfavorable factors will be:

1. Economic crisis will affect U.S. economic development.

Due to the inherent contradictions in the capitalist economy, it can be predicted that there will be another economic crisis in the United States in the mid- and late-1980's, during which the U.S. economy will make a very small increase, or even a negative increase. This will undoubtedly affect the U.S. economic development in the mid- and late-1980's.

2. The large deficit and high interest rates will threaten the renewed growth of the U.S. economy.

The large deficit is gradually becoming an important reason for high interest rates. The current prime rate, which has reached 13 percent, has dampened the initiative of enterprises to invest. As the huge budgetary deficit for the 1980's cannot be eliminated, interest rates will continue at a higher level. This is a great obstacle to U.S. economic development.

The U.S. Government can increase the funds of the enterprises by reducing taxation, and the federal reserve system is also trying to slow the rising interest rates. These measures can play a certain role, but they cannot last long and cannot offset the negative influence of high interest rates on the U.S. economic development.

3. The higher exchange rate of the dollar will make U.S. foreign trade further deteriorate.

The higher dollar exchange rate is an important reason for the huge, unfavorable U.S. foreign trade balance. Last year this unfavorable balance reached \$69.4 billion, the highest in history. It is estimated that it will reach \$100 billion this year. Feldstein held that half of it is the result of the high exchange rate of the dollar.<sup>4</sup>

4. The heavy debts of the Third World countries are unfavorable for the economic development of the United States.

By the end of last year, the total Third World debt reached \$810 billion. The high U.S. interest rates have added to their burden. Each time the interest rate increases by 1 percent, they have to pay \$6 billion more for the interest. At present, the loans provided by U.S. banks constitute more than 40 percent of those granted to the developing countries. The heavy Third World debts involve hundreds and thousands of U.S. banks and the entire financial system of the

United States, resulting in a tense financial situation. Not long ago, to counter the high interest rates of the United States, Bolivia and Ecuador decided to temporarily suspend repayment of part of their foreign debts. Argentina, Mexico, Brazil and Venezuela are also preparing to take concerted action. All this has shocked the financial circles of the United States and the West. On the other hand, the serious debt crisis has added great difficulties to the Third World countries in developing their economies. This is also unfavorable for the economic development of the United States.

The favorable factors for U.S. economic development in the mid- and late-1980's will be:

1. The scientific and technological revolution and the development of some "sunrise" industries, such as the electronics, microelectronics, new materials, automatic machinery, bioengineering, space navigation, and ocean development industries, will inject new vitality into the U.S. economy.
2. The relative equilibrium of the oil price will be conducive to increasing investment and consumption and will play a role in restraining inflation.
3. The restraint of inflation, which it is estimated will stay around 7 percent in the coming few years, will provide the U.S. Government with a greater ability to stimulate economic growth.

According to the above analysis, it can be expected that in the mid- and late 1980's, there will be a trend of moderate growth in the U.S. economy, although it will grow in great difficulties. The average annual growth rate from 1983 to 1990 will probably be 3 percent or a bit higher.

Judging from the trend of economic development in the Soviet Union and the United States, we can see that the economy of the two countries will grow at almost the same rate, that is, at a lower or medium rate, in the mid- and late 1980's. Therefore, judging from the growth rate, there will be no great changes in the Soviet-U.S. balance in economic strength.

## II. The Technological Level of the Economy

In comparing the economic strength and economic competition of the Soviet Union and the United States, the technological level of the national economy, which is a main aspect, is playing a greater role and becoming more and more important.

### A. Comparing the technological level of the national economy of the United States and the Soviet Union.

Generally speaking, the technological level of the Soviet national economy, including that of the military industrial departments, with the exception of a few military products, is lower than that of the United States. Particularly, the technological level of nonmilitary areas is generally 15 years behind.

1. Compared with the United States, the technological level of the Soviet traditional industries is lower and has achieved less progress.

For example, in the iron and steel industry, the open-hearth furnace is still widely used by the Soviet Union, and the output of open-hearth steel makes up more than 50 percent of its total steel output, while the output of advanced oxygen-blown converter steel and electric steel make up less than 30 percent and 10 percent, respectively. However, the output of oxygen-blown converter steel constitutes nearly 70 percent of the total steel output in the United States,<sup>5</sup> and the proportion of electric steel is also higher than that of the Soviet Union. The open-hearth furnace is barely used in the United States. The method of continuous casting which is highly efficient, less wasteful, and consumes fewer raw materials, was first successfully adopted by the Soviet Union. However at present, the output of steel produced by means of this method only makes up 11 percent of the total steel output in the Soviet Union, while in the United States, it is already over 40 percent.<sup>6</sup>

For another example, in the auto industry, by introducing advanced technology from the West in the late 1960's and early 1970's, the Soviet Union has greatly improved its technology. But compared with the United States, there is still a large gap. In the United States, the computer control system has been widely adopted in its auto industry, but in the Soviet Union, only a few enterprises have adopted this system. Although the Soviet Union has greatly improved the engines, they still cannot meet the engine performance requirements of the United States. Compared with the United States, the power of the motor vehicles produced by the Soviet Union is insufficient and the vehicles need more maintenance. Most of the trucks produced by the Soviet Union are medium-sized and for common use, while those produced by the United States are mostly large trucks for special use.

There is a greater gap between the two countries in the technological level of the oil industry. To drill a 10,000-foot well, a Soviet drilling team needs 14 months, but an American team needs only 34 days. Soviet seismological observation equipment can only survey a distance of 7,000 feet, but that of the United States can reach more than 10,000 feet.<sup>7</sup>

United States technology for exploiting offshore oil is also more advanced than that of the Soviet Union.

The forestry industry is an important industry in both the Soviet Union and the United States. However, in the United States, mechanization has long been realized in this industry, while in the Soviet Union, the level of mechanization is still rather low. For example, the amount of timber cut by machines in the Soviet Union constitutes only a little less than 20 percent of the total cut.<sup>8</sup>

The machine-building industry plays a decisive role in raising the technical level and promoting technical progress in other parts of the national economy. For most products, the Soviet technical level in the machine-building industry is lower than that of the United States, and computer management and automation are not used as widely as in the United States. In the Soviet Union, metal cutting technology, used mainly in machine-building and metal processing enterprises, is of low efficiency, high consumption, and great waste. Every year, more than 8 million tons of metal filing result from using this technology.<sup>9</sup> This is the main reason for the higher metal consumption in the Soviet machine-building industry than in the United States.

At present, the Soviet Union has about 6 million sets of metal processing equipment, which is 60 percent more than the United States. However, due to its backward technology and low productivity, its machinery industrial output value is only 63 percent of that of the United States.<sup>10</sup>

The technical level of other traditional Soviet industries, such as the chemical industry, the building material industry, the ship-building industry, and especially, light industry and the food industry, is also lower than that of the United States to varying degrees.

2. Backwardness of the Soviet Union in its economic technical level is more obvious in the newly emerging industrial sectors.

An important symbol of the rapid increase in the economic technical level after the war is the successive emergence and vigorous development of a number of new industrial sectors. However, the technical level of these new industrial sectors in the Soviet Union is also lower than that in the United States.

Despite the comparatively quicker development of the computer industry in the Soviet Union, there has always been a gap of about 10 years between this country and the United States in their respective technical levels. At present, the number of computers in the United States is 10 times larger than in the Soviet Union. Most of the Soviet computers are second generation computers, but most of those in the United States are third and fourth generations. Moreover, the U.S. computers can be used in much wider spheres than the Soviet ones. This is an important factor in comparing the Soviet Union and the United States in terms of their economic technical levels.

The Soviet synthetic material industry is 10 years behind that of the United States; its chemical fiber industry, 20 years; and its automatic instrument and equipment and petrochemical industries, 10-15 years behind.<sup>11</sup> Generally speaking, the technologies of the Soviet aviation industry, nuclear industry, space aviation industry, bioengineering, and oceanographic engineering industry have also lagged behind.

3. Compared with the United States, the period of use of fixed production funds is longer and the replacement rate is slower in the Soviet Union.

In the Soviet ferrous metallurgical, machine-building, chemical, and power industries, as well as in its light industry and food industry, much equipment has been used for more than 50 years, and some has even been used for more than 100 years.<sup>12</sup> Given that the United States replaces its integrated circuits and microprocessors with a new generation every 3 years and raises the integrated level of its integrated circuits by 10-fold every 10 years, the Soviet Union still stipulates that the minimum effective life of its computers is 10 years (it was 50 years before 1974).<sup>13</sup>

Over the past few years, although the Soviet Union has emphasized technical transformation in existing enterprises and decided to increase investment in this field, for systemic reasons, a large part of the investment has been used to expand existing enterprises, and only a very small part has been used for the purpose of technical transformation.

Due to the replacement of equipment and its obsolescence, there is a very sizeable repair trade in the Soviet Union. At present, some 60 percent of the workers and builders are engaged in the repair trade in various production fields.<sup>14</sup> The funds used in overhauling industrial equipment alone constitutes one-third of the total industrial investment and half the funds for the purchase of metal processing equipment.<sup>15</sup> The renewal of fixed capital is quicker in the United States than in the Soviet Union. The operating life of machinery equipment in the United States is generally less than 15 years, and in some major industrial sectors, such as the machine-building, chemical, and auto industries, it is usually less than 10 years,<sup>16</sup> while in the newly emerging industrial sectors, it is less than 5 years.

The Soviet Union has increased the depreciation rate of fixed industrial assets several times and shortened the operating life of equipment. But this is still much longer than that in the United States. In 1968 the Soviet Union stipulated that the average period of using the productive industrial fixed assets was 25 years. It was reduced to 22 years in 1975.<sup>17</sup> However, the actual period is usually longer than stipulated. In 1959, the United States stipulated that the life of processing industrial equipment was 16 years. It was then reduced to 12 years in 1962.<sup>18</sup> Over the past year or so, due to capitalist competition and rapid improvement in technology as well as practicing the method of accelerated depreciation, this period has been further shortened.

The long period of using the fixed production funds and the slow renewal have obstructed the improvement of technology and reduced economic returns in the Soviet Union.

#### 4. The technical level of Soviet agricultural production is far behind that of the United States.

At present, the outputs of the main agricultural productive means of the Soviet Union, such as the outputs of tractors and chemical fertilizers, are higher than those of the United States. There are 70,000 agrotechnicians in the Soviet Union, while in the United States, there are only over 20,000. However, due to historical reasons, mainly the unsatisfactory results of investment and low work efficiency, the Soviet agricultural technical level is still much lower than that of the United States.

The level of its agricultural mechanization is also lower than that of the United States.

Although the Soviet Union has achieved a faster increase in the output of chemical fertilizers, it still lags behind in the extensive use of chemical fertilizers and other farm chemicals compared with the United States. With regard to the output of chemical fertilizers and the area of cultivated land, the quantity of chemical fertilizers applied on each hectare of land in the Soviet Union is 70 percent of the amount applied in the United States.

In other fields concerning agricultural technology, such as mechanization of animal husbandry, application of biotechnology, selection and breeding of improved varieties, and specialization of agricultural production, the United States is more advanced than the Soviet Union.

U.S. agriculture is a type of capital intensive and technology intensive grand agriculture, which is characterized by high labor productivity. For example, the amount of grain produced by an individual agricultural laborer in the Soviet Union is only about 15 percent of that produced by an individual laborer in the United States, and the meat produced is only about 9 percent.<sup>19</sup> At present, the per unit yield of grain of the United States is 150 percent higher than that of the Soviet Union.<sup>20</sup>

In producing a small number of products, the Soviet Union's technical level is higher than the United States. For example, it is more advanced in certain steel-making and metal processing technologies, nuclear and hydropower equipment, hydraulic coal mining technology, long-distance high tension power transmission technology, magnetic fluid power generating technology, welding equipment, electroslag hollow ingot technology, and the technology of eliminating the stress of the interior flakes of computers by means of infrared rays. However, these few advanced technologies cannot change its backward situation as a whole. What is more important is that there are great obstacles in applying and popularizing new technologies in the Soviet Union. Some Soviet patent technologies have often first been popularized in Western countries and are used less in the Soviet Union.

#### B. The trend of development of Soviet-U.S. economic technical level in the mid-and late-1980's

The economic technical levels of both the Soviet Union and the United States will be further increased in the mid- and late-1980's. However, there are differences in the target, orientation, and contents of their technical progress. This is determined by the differences in their economic development and technical levels.

The Soviet economy is now in a period of changing from the extensive to the intensive. The target of economic technical progress of the Soviet Union in the 1980's is to raise the level of the intensive economy. According to the expositions of the Soviet leaders and press, there are basically five directions for the technical progress of the Soviet national economy in the 1980's.

First, to create and adopt new technologies and new techniques which can greatly save material and financial resources.

Second, to raise the level of mechanization and automation in the course of production so as to reduce manual labor and increase labor productivity.

Third, to accelerate the renewal and modernization of production funds; the equipment renewal rate will be increased by 50 percent during the period of the "11th 5-Year Plan."

Fourth, to increase the production of quality products, to stop the production of out-dated products, and to accelerate the change of generations of products.

Fifth, to continue to raise the technical level of agricultural production.

To sum up, the above-mentioned five points means to raise the economic returns and efficiency. In order to achieve a greater progress in the above-mentioned five aspects and raise the technical level of the national economy, the Soviet Union is now carrying out 170 special programs for technical progress, 40 of which will be completed by 1985. These programs may not be fully completed, but we can be sure that at the end of the 1980's, the technical level of the Soviet national economy will have increased to a comparatively greater extent.

Unlike the Soviet Union, the U.S. economy is already an intensive economy with a higher technical level than the Soviet Union. In the mid- and late-1980's, the technical progress of the U.S. economy will mainly develop toward the following targets:

First, the new technical revolution and the "sunrise" economy will rapidly develop and will occupy a more important position and play a greater role in the national economy.

The present sales volume of the U.S. electronics industry has reached about \$120 billion. It will reach \$400 billion by the end of the 1980's<sup>21</sup> and will become the largest industrial field in the world, replacing the auto industry. It is estimated that 5 years later, the United States will have 50 million sets of computers and terminals and automatic office equipment with electronic keyboards, about half of the total number of the world.<sup>22</sup>

The application of bioengineering will become more popular. It is generally estimated that in a few years to come, the application of bioengineering in the United States will become a large sector with a sales volume of several billion dollars. After the "silicon valley," a "genes valley" is now taking shape in the United States.

In 1981, there were 14,000 robots in the world, doing the work originally done by the workers. It is estimated that in 1990, there will be 200,000 robots in the United States alone.<sup>23</sup> It is also estimated that some robots capable of speaking with people will be made by the United States in the late 1980's.

The new materials industry in the United States is just in the ascendant. Apart from glass fiber and carbon fiber, which are developing very fast, more new materials will also be created.

Other newly-emerging industrial sectors will occupy a more important position in the U.S. national economy.

Second, the infiltration of new technology and the "sunrise" economy into traditional economic sectors will further change the face of the national economy.

Computers and automation systems have been widely adopted in the U.S. steel, auto, machine-building, chemical, and light industrial sectors. Computers are also widely used by the commercial, financial, service, and educational departments in the United States. In the mid- and late 1980's, this "infiltration" of new technologies into the national economy will be further strengthened. For example, some U.S. organizations have predicted that full automation from designing to production will be realized under computer control in 1985 and will be popularized in the 1990's. In 1990, all physical projects will be under the control of programs, and the CAD (computer assisted designing) will be popularized.

In the field of bioengineering, the United States has already collected 5.5 million kinds of genes of plants and established a gene bank.<sup>24</sup> This will have an important bearing on the development of agriculture, the food industry, and medical science.

To sum up, by the end of the 1980's, both the Soviet Union and the United States will achieve an increase in the technical level of the national economy on the present bases. However, when comparing the possible technical levels of the two countries by the end of the 1980's, attention should be paid to the following two problems: First, the efficiency of the Soviet Union in applying and popularizing new technologies is lower than that of the United States. The cycle of its scientific research is more than 10 years, while that of the United States is only 5 years.<sup>25</sup> Second, although the Soviet Union has achieved a quicker development in newly-emerged technical sectors, such as computers, automation equipment, new materials, the space aviation industry, the aviation industry, bioengineering, and ocean development, it still lags behind the United States in their technical level and development scope, and the role they play in the national economy. Thus we can predict that generally speaking, the gap between the Soviet Union and the United States in the technical level of the national economy is unlikely to be narrowed by the end of the 1980's, and that in some newly-emerging technical sectors, such as electronics, information, new materials, bioengineering, space aviation industry, and ocean development, it will possibly be widened.

### III. Economic Returns and Efficiency

#### A. Comparing the Soviet Union and the United States in economic returns and efficiency.

Due to the backward management and lower technical level, Soviet economic returns and efficiency are both lower than those of the United States. This is mainly expressed in the following aspects:

##### 1. More investment, less products, higher consumption, and greater waste.

For example, only some 70 percent of the steel produced by the Soviet Union is usable, which is 10 percent lower than the United States. This alone has made the Soviet Union suffer a loss in steel production, which is more than 10 million tons a year higher than that of the United States. In the manufacturing of steel machines—steel products—the Soviet Union is suffering a greater loss every year, which is more than 30 million tons higher than that of the United States.<sup>26</sup> The Soviet Union can only produce 0.5 tons of machines from 1 ton of steel.<sup>27</sup> Its consumption of metal is 50 percent higher than that of the United States. Due to this high consumption, although Soviet steel output is higher than that of the United States, its metal industrial production is lower than that of the latter.

Every year, the Soviet Union loses 20 percent of its chemical fertilizers during transportation or in storage. Due to the irrational application of chemical fertilizers, the amount of chemical fertilizer consumed by the Soviet Union to create a certain amount of agricultural output value is more than 40 percent higher than that of the United States,<sup>28</sup> and the consumption to produce a certain amount of grain is 60-100 percent higher than that of the latter.<sup>29</sup>

Every year, some 400 million tons of standard fuel is wasted in the Soviet Union. In addition, as a result of high energy consumption due to backward technology, each ton of its standard fuel can only produce \$375 of national income, but in the United States it can produce \$608.<sup>30</sup>

In the course of purchasing, transporting, and processing, the Soviet Union loses about half of the timber it produces every year. It can only make 25 tons of products out of every 1,000 cubic meters of timber, while the United States can make more than 100 tons.

The consumption of cement by the Soviet Union to produce a certain amount of output value is much higher than that of the United States.

The Soviet consumption of other materials is also higher than the United States. According to the figures provided by the Soviet press last year, in the production of a certain amount of the national income, the Soviet consumption of both materials and funds is higher than that of the latter. For example, the consumption of electricity is 20 percent higher, and of timber, chemical fertilizer, steel, oil, cement, and investment is respectively 50 percent, 60 percent, 75 percent, 100 percent, 130 percent, and 50 percent higher than that of the United States.<sup>31</sup> Due to high consumption and great waste, the Soviet statistics about its economic growth and the growth rate are actually greatly exaggerated.

## 2. Inferior quality of products.

The quality of most Soviet raw material and industrial products is inferior to that of the United States, except for a few of them (mainly military industrial products). This inferior quality is a long-standing problem for the Soviet economy and a weak point in the Soviet-U.S. economic balance.

For example, the quality of Soviet metal is generally lower than that of the United States, and the strength of its steel is especially lower than the product of the latter. This has resulted in a bigger safety coefficient as well as a heavier weight and larger volume in the machinery equipment produced by the Soviet Union. The Soviet machines are generally 20-25 percent heavier than those of the United States, and its metal cutting machine tools are even 70 percent heavier.<sup>32</sup> The inferior quality of metal is also an important reason for the many breakdowns and short life of Soviet machinery equipment.

About 90 percent of the cement produced by the Soviet Union is low-grade cement below Grade 400. The United States produces much more high-grade cement than the Soviet Union.<sup>33</sup>

As to the chemical fertilizer produced by the Soviet Union, about 20-40 percent of this product does not meet U.S. technical standards, and its effective composition is lower than that of the United States.

The output of Soviet tractors is higher than that of the United States. However, due to the poor quality, their average life is only about half of the life of U.S. tractors, and their breakdown rate has reached as high as 13 percent, while that of U.S. tractors is only 4 percent.<sup>34</sup> The average power of the Soviet tractors is only about two-thirds of that of U.S. tractors.<sup>35</sup> However, their

average weight is higher than the latter. Their functioning is poorer, but oil consumption is higher. In addition, the Soviet management is less advanced. All this has made the Soviet use of tractors 160 percent higher than that of the United States to produce a certain amount of agricultural output value.<sup>36</sup>

The inferior quality of Soviet products is more clearly shown by the manufacture of light industrial products in a rough and slipshod way. For example, the Soviet Union produces more than 700 million pairs of leather shoes a year, an average of 3 pairs for each person, which is 75 percent higher than the United States. However, due to the inferior quality and outdated designs, it needs to import a large quantity of leather shoes from abroad.

The inferior quality has, in reality, offset a greater part of the quantity of its products.

### 3. Low efficiency in capital construction and little effect in investment.

The cycle of Soviet capital construction is much longer than that of the United States. The construction period for large-scale projects in the Soviet Union is about 5-10 years and the period for medium-scale projects is about 3-5 years. But in the United States, the times are respectively 2 years and less than 1 year.<sup>37</sup> Over the past year or so, unfinished Soviet projects have constituted about 85 percent of the year's total investment, but those of the United States constitute less than 40 percent.

The period for recovering industrial investment is as long as 25 years in the Soviet Union, while in the United States, it is only 5 years.<sup>38</sup>

### 4. A wide gap between the Soviet Union and the United States in labor productivity.

Soviet official figures show that its social labor productivity is only about 40 percent of that of the United States and its industrial labor productivity is 55 percent of that of the latter (according to U.S. statistics it is only 41 percent). Agricultural labor productivity in the Soviet Union is even lower, only 20-25 percent of that of the United States (according to U.S. statistics it is only 11 percent).

The efficiency of the Soviet national economy as a whole is lower than that of the United States. Although the Soviet Union has put more labor force into the national economy, 45 percent higher than the United States, and its investment in the sphere of material production is also higher, it has achieved less in production compared with the latter.

## B. The trend of development of Soviet and U.S. economic returns and efficiency in the mid- and late 1980's.

The economic returns and efficiency of the Soviet Union will increase in the mid- and late 1980's.

1. Material consumption will drop.
2. The quality of products will improve, and the proportion of quality products will increase.
3. The results of investment will increase and the period of capital construction will decline by increasing the present proportion of investment in technical transformation in the existing enterprises and by means of economic stimulation.
4. Labor productivity will continue to increase, but the rate of increase will remain at about 3 percent.

The economic returns and efficiency of the United States will also further increase in the mid- and late 1980's.

1. Material consumption will further decline along with the development of the new technical revolution.
2. The quality of products will further improve, with emphasis being laid on the constant improvement of their functions and technical level rather than their durability.
3. As a result of the progress achieved in construction technology, the use of a large number of new construction materials, and the increase of investment in the capital construction of new technical departments, the efficiency of U.S. capital construction will further increase.
4. Labor productivity will also further increase. In the 1980's, the growth rate of U.S. labor productivity will probably remain at about 3 percent, the same as that of the 1970's.

To the end of the 1980's, it is unlikely that there will be great changes in the gap between the Soviet Union and the United States in their economic returns and efficiency.

#### IV. The Economic Structure

The economic structure is an important factor affecting the economic strength. Due to the differences in the Soviet and U.S. economic systems, development roads, and technical level, the economic structures of the two countries also bear different characteristics. Each has his own strong points and weak points.

##### A. Comparing the Soviet and U.S. economic structures

1. The Soviet Union has laid excessive stress on heavy industry, while its agriculture and light industry are comparatively backward. However, the United States has achieved a more coordinated development of the three.

As a result of lopsidedly implementing the policy of giving priority to the development of heavy industry, agriculture and light industry have been pushed aside in the Soviet Union. However, in the United States, the relations between heavy industry and agriculture and light industry have been handled more rationally. The proportion of heavy industry in the Soviet total industrial output value has reached as high as 74 percent, but that of light industry is only 26 percent. But in the United States, the proportion of heavy industry has

never been higher than 60 percent, and that of its light industry has always been higher than 34 percent.<sup>39</sup> In the Soviet Union, not only is the proportion of its heavy industry too large, but also most of it is related to military and self-service industries. Only 10 percent of its heavy industrial products are for civil use, but in the United States the percentage is about 35-40 percent. The large proportion of heavy industry, with the main part of it being military and self-service industries, has reduced the beneficial results for the Soviet national economy. It is unfavorable to the development of the national economy and the improvement of the people's livelihood.

The disproportion of the Soviet economic structure is more clearly expressed by its backward agriculture, which has become a strategic weakpoint of the Soviet Union.

The backwardness in Soviet agriculture is not due to the state not attaching importance to it nor having made less investment in it, as was the case in the past. It is now mainly seen in the "strikingly lower efficiency" compared with the United States. Soviet agricultural investment accounts for more than 27 percent of the total investment in the national economy. Both the proportion and absolute volume of investment are first in the world. U.S. investment in agriculture, forestry, fishery, and hunting only makes up 3.6 percent of the total investment in equipment. The Soviet labor force engaged in agricultural production accounts for 10 percent of the total population, but that in the United States only accounts for 2 percent. The Soviet total investment in agriculture is five-fold higher, and the agricultural labor force, six-fold higher, than those in the United States, and its outputs of tractors and chemical fertilizer are also higher than the latter, but the results of its production are much worse. Its grain output for the past year was only 50-70 percent of that of the United States. The backward agriculture has resulted in a long-term shortage in the supply of foodstuffs and has held back the development of the entire national economy.

2. The Soviet Union has achieved faster development than the United States in the traditional sectors and products, but less progress in substituting new sectors and products for them.

An important aspect of the progressive reform of the structure of the national economy at present is that some new sectors and products are gradually pushing out or even replacing some traditional sectors and products. In this respect, the Soviet Union has achieved less progress than the United States.

For example, "metal, timber, and other materials will be gradually replaced by synthetic materials, which are cheaper, lighter, and more practical." The United States has achieved a comparatively faster development in the new materials industry. Now its synthetic resin and plastics outputs have reached 14 million tons a year, four times higher than those of the Soviet Union,<sup>40</sup> and its aluminium output is almost three times that of the latter.<sup>41</sup> As a large quantity of new materials have been used by the United States and the consumption of metals has been reduced, since the end of the war, its consumption of steel products has dropped by one-third and the consumption of ferrous metal casting has been reduced by three-fifths.

Unlike the United States, the Soviet consumption of pig iron, steel, and timber to produce a certain amount of industrial output value is 30-40 percent higher than that of the United States, but its consumption of synthetic materials is lower.<sup>42</sup> According to a calculation by Soviet scholars, under the present production and technical conditions, some 12 million tons of metal and 28 million cubic meters of timber (or 8 percent of metal and 12 percent of timber) can be replaced by synthetic materials.<sup>43</sup> However, the Soviet Union has achieved comparatively slower progress in this respect. In the construction field, the United States is using a large quantity of the third-generation construction materials such as synthetic materials and glass, but the Soviet Union is still using steel, cement, concrete, and bricks and other second-generation materials.

The cotton output of the Soviet Union is higher than that of the United States, but it uses less synthetic fibers to substitute for cotton as textile raw materials. Synthetic fibers constitute more than 60 percent of the textile raw materials in the United States, but only 20 percent in the Soviet Union. The output of chemical fibers of the United States is three times that of the Soviet Union.<sup>44</sup>

Soviet scholars have also pointed out this problem in the Soviet economic structure. They hold: "The high consumption of metal and timber shows that our industry has been developed on the basis of traditional methods characterized by using natural materials and their exploitation and processing."<sup>45</sup>

3. The proportion of the Soviet raw materials industry is greater than that of the United States, but the proportion of the processing industry is smaller than the latter. Its utilization ratio of raw materials is rather low.

The proportion of the raw materials industry in the national economy of the Soviet Union is the highest among the developed countries. Its output constitutes more than 50 percent of the total output of social products, and the investment in its sector constitutes 27 percent of the total investment in the Soviet national economy. In the Soviet Union, 40 percent of fixed production funds and 40 percent of labor forces are concentrated in the raw materials industry. The fixed production funds of the excavation industry alone makes up 21.4 percent of the total fixed production funds of the Soviet Union. However, in the United States, the investment in the fixed assets of the mining and quarrying sectors only makes up 4.4 percent of the total investment in fixed assets.<sup>46</sup> The number of workers in the U.S. excavation sector only accounts for 1.1 percent of that of the nonagricultural sectors.<sup>47</sup>

At present, Soviet output of more than 20 industrial products is higher than those of the United States, but most of these products are raw materials and fuel, such as iron ore, iron, steel, steel products, oil, cement, chemical fertilizer, and timber, which are primary or intermediate products.

The most important thing in the comparison of the economic strength between the two countries is the comparison between their final products, and the key problem is the efficiency and results of producing these final products by means of the primary and intermediate products. Due to its backward management and low

technical level, the Soviet Union is unable to turn its superiority in raw materials into superiority in final products. As a result, compared with the United States, it has more primary and intermediate products but less final products and lower efficiency. For example, it has more steel, but less industrial metals, more cement but lower construction output value, and more timber but less timber products.

The large proportion of the raw materials sector shows that the Soviet economic structure is the low efficiency and high consumption type. However, this structure has a strong point, that is, the high degree of self-sufficiency in raw materials, which provides room for the readjustment of the ratio between raw materials and the processing industry and between industry and energy resources. The smaller proportion of the raw materials sectors show that the U.S. economic structure is the high efficiency type, but also shows that its degree of self-sufficiency in raw materials is lower than that of the Soviet Union.

4. The proportion of the U.S. commercial service sector is higher than that of the Soviet Union. The latter is comparatively backward in this field.

Along with the development of the national economy and the improvement of the people's livelihood, the proportion of the commercial service sectors to the national economy has been raised in both the Soviet Union and the United States, but that of the United States is much higher than that of the Soviet Union.

For example, based on the composition of national income, the proportion of the Soviet commercial service sector increased from 11.5 percent in 1958 to 14.4 percent in 1978, while that of the United States increased from 47 percent in 1950 to 58.2 percent in 1977. Based on the composition of employees, this proportion in the Soviet Union increased from 20 percent to 31 percent in 1978, and that of the United States from 43 percent in 1950 to 60.1 percent in 1977.<sup>48</sup>

The increase in the proportion of the commercial service sector and the decrease of that of the materials production sector is an objective law of the socio-economic development. As the Soviet Union has been implementing a policy regarding production as superior to consumption and has not handled well the relationship between production and exchange, circulation, and consumption, its commercial service sector has long been in a backward position, seriously affecting its economic development and the people's livelihood. The U.S. commercial service sector is more advanced than that of the Soviet Union either in the scope of development, technical measures, the range of business, or the quality of service.

5. The basic production installations of the Soviet Union are backward compared with those of the United States.

Communications and transportation, electric power, and posts and telecommunications form another major strategic weak point of the Soviet economic structure and a "bottleneck" in the development of the Soviet national economy.

The backward communications and transportation can be seen clearly from the following figures: from 1919 to 1978, the Soviet total industrial and agricultural output value increased by 100-fold and the volume of various rail freights increased by 70-fold, but its main railways only increased by less than 100 percent. At present the total length of Soviet railways is more than 140,000 km,

less than half of that of the United States.<sup>49</sup> The United States is the most developed country in highway transportation. The total length of its highways reaches more than 60 million km, which ranks first in the world and is about 10 times that of the Soviet Union.

Pipeline transportation is a newly emerging, modern means of transportation. It is more convenient, safer, and more reliable and costs less. The United States has achieved rapid development in this form of transportation. At present, about 70-80 percent of its crude oil and 60 percent of its oil products are transported through pipes. The proportion of pipeline transportation in the total volume of freight increased from 11.81 percent in 1945 to 24.06 percent in 1978. However, the oil pipelines of the Soviet Union only equal 20 percent of those of the United States.

The turnover volume of Soviet freight transport by civil aviation is less than one-third of that of the United States, and its passenger volume only reaches 40 percent of that of the latter.<sup>50</sup>

The turnover volume of Soviet inland river freight transport is only 16 percent of that of the United States.<sup>51</sup>

The backward communications and transport have brought about serious consequences to Soviet economic development. Due to the delays of the goods in the course of transport, Soviet industry loses 6.5 billion rubles a year, and its agriculture loses 4 billion rubles.<sup>52</sup>

Although the Soviet Union has achieved a relatively faster development in the production of electric power, its generated energy is only a little more than half of that of the United States, of which the nuclear energy is only one-seventh of that of the latter. The level of electrification of the Soviet national economy and social life, especially that of its agriculture and the people's daily life, is much lower than the United States.

Due to the backward storage facilities, the Soviet Union has suffered greater losses of industrial and agricultural products than the United States.

The storage facilities for industrial and agricultural products in the United States can basically meet the needs. Mechanization has basically been realized in the warehouses and, moreover, computers are widely used.

Both the scope and technical level of the U.S. posts and telecommunications departments are greater and more advanced than those of the Soviet Union.

Judging from the facts mentioned above, although the economic structures of the two countries bear different characteristics, we can still draw a conclusion that the United States is superior to the Soviet Union in this respect.

B. The trend of development in Soviet and U.S. economic structures in the mid- and late 1980's.

Changes will take place in the economic structures of both the Soviet Union and the United States in the mid- and late 1980's.

In order to intensify its economy, the Soviet Union will make a further readjustment of its economic structure. The following are possible directions and results of this readjustment.

1. Both the proportion of light industry and the level of agricultural production will be increased.

In the mid- and late 1980's, the speed of increase in the Soviet second-category industry will be close to or even higher than that of the first-category industry. For example, according to the "11th 5-Year Plan," second-category industry will increase by 27 to 29 percent while the latter increase by 26 to 28 percent. Attention will continue to be attached to the development of agriculture. Agricultural production will be further intensified, and agricultural output will be further increased.

This does not mean that the Soviet Union has given up its policy of giving priority to the development of heavy industry. Many factors decide that it will not do so. First, the arms race between the Soviet Union and the United States is unlikely to be relaxed. Thus, the Soviet Union will have to further strengthen its military strength and give priority to the development of its heavy industry. Second, as the progress of technology will play a more important role in production, it will promote the development of the first-category industry in the following two respects: 1) It will bring about the emergence of a series of new technical sectors and further expand the scope of the production of the productive means; 2) it demands a faster renewal of the fixed production funds and the creation of new machinery equipment and materials; 3) a large quantity of technical equipment is needed in the 1980's for the development of agriculture and for speeding up the pace of industrialization in agricultural production.

In the mid- and late 1980's, the disproportion between heavy industry on one side and light industry and agriculture on the other will not be greatly changed in the Soviet Union.

2. Some certain progress will be made in replacing traditional products and materials with new products and materials.

During the period of the "11th 5-Year Plan," rolled ferrous metals will only increase from 14 to 17 percent, but synthetic resin and plastics will increase from 65 to 72 percent. In the same period, chemical fibers and chemical thread will increase by 36 percent. In the Soviet Union, the purpose of economizing on metal is mainly achieved by adopting new materials. However, it is less advanced than the United States in the scope and level of using new materials.

3. The processing industry will achieve a faster development than the raw materials industry and will make up a greater proportion in its national economy.

In the 1980's, the growth rate of Soviet raw materials production will be further reduced. During the "11th 5-Year Plan," the greatest increase in Soviet energy production will be 6 million tons [of standard coal] a year, and its total steel

output can be increased by 2 to 7 million tons. According to the plan, its machine-building industry will be increased by 40 percent. The speed of development of most processing industrial departments will be higher than that of the total industrial output value. However, the proportion of the Soviet processing industry will also be smaller than that of the United States.

4. The proportion of the commercial and service sectors will be increased.

The backwardness of the commercial and service sectors has already brought about a series of negative consequences. The Soviet Union is now adopting measures to develop these sectors. By the end of the 1980's, the proportion of these sectors will be further increased. However, due to the insufficient manpower and material resources, this proportion will be slowly increased.

5. The basic production installations will be improved.

Since the 1980's, the Soviet Union has speeded up the development of its basic production installations. During the "11th 5-Year Plan" period, under the circumstances that total investment in the national economy will only be increased by 12 to 15 percent, yet investment in railway construction will be increased by 30 percent. Some 5,000 kilometers of double tracks will be put into production, 6,000 kilometers of railways will be electrified, and 3,000 kilometers of new railways will be built. The (Bei-a) [6296 7093] trunk line will also go into operation. At the same time, investment in highway construction will also be increased by a big margin, of which investment in the construction of rural highways will be increased by 42 percent.

The Soviet Union will also greatly develop its pipeline transportation in the 1980's. According to the "11th 5-Year Plan" 12,000 kilometers of oil pipelines will be built during this period.

In the mid- and late 1980's, the Soviet Union will achieve relatively greater development in power production, especially in nuclear power production. At present, 18 nuclear power stations are under construction.

The Soviet Union is now adopting measures to improve its storage facilities for its products. During the "11th 5-Year Plan" period, investment in the construction of warehouses, cold storages, and vegetable and fruit storerooms as well as warehouses for chemical fertilizers and other farm chemicals will also be increased by a big margin.

Although Soviet basic production installations will be improved in the mid- and the late 1980's, they still cannot satisfy the needs of economic development.

Along with the development of the new technical revolution and the increase in the economic technical level, the U.S. economic structure will also be further changed.

1. The ratio between heavy industry, light industry, and agriculture will generally remain unchanged.

The scientific and technical revolution of the United States and the improvement of technology will promote the development and renewal of the means of production. They will also promote the production of the means of subsistence. On the one hand, the quality and functioning of the existing means of subsistence will be improved; on the other, some new means of subsistence will also appear. This is obviously different from the Soviet Union, which has long limited the application of new technical achievements to the military sphere or some specific production departments and which has made very few changes in the functioning and design of its means of subsistence.

While agricultural production is further developed, its proportion in the national economy will possibly be slightly reduced.

2. More traditional materials and products will be replaced by new materials and products.

In the mid- and late 1980's, substitute materials and products, such as synthetic resin, plastics, glass fiber, carbon fiber, industrial pottery and porcelain, chemical fiber, and aluminum, will be used more widely. The development and use of the new technologies will also result in fewer demands for traditional materials. For example, some people in the United States estimate that in the coming decade or so, owing to the development of optical cables, the smelting of recycled copper alone will be able to satisfy the needs for copper.<sup>53</sup>

For a while, traditional materials will continue to be the main raw materials for the United States. However, the role and proportion of these materials will be gradually reduced.

3. The position and proportion of the raw materials industrial sector will be further decreased.

Along with the development of technologies and the increasing reliance of the United States on overseas raw materials, the proportion of U.S. raw materials industry will be further reduced in the mid- and late 1980's. However, due to the increase in coal output and the fact that the proportion of the raw materials industry is already rather low in the U.S. economy, there will be no great decrease in this respect.

4. The proportion of the commercial and service sectors will be further increased.

It is estimated that by the end of the 1980's, the proportion of these sectors will be increased to over 60 percent, or even reach about 65 percent, in terms of the employment rate and the national income. The proportion of the information sector will be more greatly increased.

5. The level of basic production installations will be further increased.

Unlike the Soviet Union, the United States will not mainly increase the number of these installations in the future, but will mainly raise their technical level and develop the most advanced technologies.

In the field of communications and transportation, the position of railways will be further reduced, but the construction of expressways will be developed in the mid- and late 1980's. Expressways, pipeline transportation, civil aviation, and inland river transportation will be developed at a comparatively higher speed. The characteristics of highway freight transport, which is the main means of transport in the United States, are: more expressways are being built, more large-scale, special, and container trucks are being used, and management being modernized.

The reform of posts and telecommunications is an important task of the new technical revolution. The United States is preparing to build a number of "telecommunications ports." This is a kind of unified and coordinated communications service network using the most advanced telecommunications devices to propagate information in all directions. The transition from analog communications to digital communications, which has already begun in the United States, will be greatly promoted in the mid- and late 1980's. The development of optical fiber communications will also be accelerated. The United States is planning to change 20 percent of its main international telephone lines and 15 percent of the return circuits of its telephone subscribers into optical fiber lines by 1990 and turn them into videophones.

In the 1980's U.S. power production will continue to develop.

The technical level of U.S. warehouses will also be greatly increased and, on the basis of widely applying computers, a number of unmanned automated warehouses will be built.

From the above analysis we can see that at the end of the 1980's, the main differences between the Soviet Union and the United States in the economic structures and their respective characteristics will continue to exist.

## V. Natural Resources

Natural resources form a necessary condition for economic development. While comparing the economic strength and development of the Soviet Union and the United States, it is also necessary to take into account the status of their natural resources, which is an important factor affecting the economic development of the two countries.

### A. Comparing the natural resources of the Soviet Union and the United States.

1. The rate self-sufficiency of the Soviet Union in respect of natural resources is higher than that of the United States.

Both the Soviet Union and the United States are rich in the main natural resources necessary for their economic development.

U.S. coal, iron ore, oil, natural gas, sylvite, and phosphate reserves are among the highest in the world and its uranium reserves rank first. It has also rich reserves of copper and aluminum. Its forest covering rate reaches 33 percent. Besides, it is also rich in water resources.

Soviet iron ore, coal, natural gas, oil shale, sylvite, and recoverable water resources reserves are the highest in the world. Its oil reserves ranks third. It has also rich reserves of copper, aluminum, manganese, zinc, nickel, cobalt, magnesium, gold, silver, molybdenum, tungsten, vanadium, titanium, chromium, diamonds, asbestos, and phosphate rocks, and its forest covering rate is about 36 percent.

As a result of the long-term exploitation and huge consumption, the natural resources conditions of both the Soviet Union and the United States are deteriorating.

At present, the U.S. per capita consumption of various mineral resources has reached 17 tons per annum.<sup>54</sup> As the Soviet exploitation of natural resources is increasing at an annual rate of 5 to 10 percent and, in addition, there has been a great waste of natural resources, its present per capita consumption of various mineral resources is more than 23 tons, a 100-percent increase over that of more than 10 years ago.<sup>55</sup>

There are different signs of the deterioration in natural resources in the two countries. In energy resources, the deterioration in the United States is mainly expressed by the decrease in its rate of oil self-sufficiency. The proportion of imported crude oil in the total consumption of oil was raised from 15 percent in the 1950's to 40 percent in 1980. As U.S. coal and natural gas output and general power rank first in the world, the rate of self-sufficiency in this respect is about 90 percent in the total consumption of energy resources. If its exported coal, natural gas, and electric power are balanced with its imported oil, the U.S. energy rate of self-sufficiency would reach over 95 percent.

The deterioration in Soviet energy resources is shown by the deterioration of its production conditions and the shifting of its production bases to the East. There is a trend that its energy reserves in the European area, which is the focus of the Soviet economy, will soon be used up and that its Siberian and Far Eastern areas are becoming its main energy production bases. Due to adverse natural conditions, long distance transport, and the sparse population there, the production costs have almost doubled. At present, more than 70 percent of the investment has been spent on the maintenance of the simple reproduction of fuel alone.<sup>56</sup> Under the present situation when the Soviet Union is in need of more investment, the growth of its energy production is obstructed.

Despite the serious deterioration in Soviet energy production, owing to its rich reserves and sound material and technical basis of production, the Soviet Union is still more than self-sufficient in energy production.

The deterioration in other natural resources in the United States is also shown by a drop in the rate of self-sufficiency. For example, the proportion of ferrochrome and ferromanganese produced by itself in its total consumption dropped from 85 percent in the 1960's to 40 percent in 1980.

The deterioration in other natural resources in the Soviet Union is mainly shown by the deterioration in production conditions and the quality of mineral products. Production costs have increased by a big margin due to deeper underground mining and deteriorating natural conditions. As a result, the Soviet Union "cannot but consider importing" some natural resources from abroad.

Despite that, the deterioration in natural resources in the Soviet Union is mainly in the distribution of the productive forces and the conditions for exploitation. It does not mean an absolute shortage and drying up of natural resources. At present, the Soviet Union is the only big and economically developed country which is basically self-sufficient in natural resources. However, the United States to a greater extent relies on overseas resources. The Soviet Union is able to supply itself with 21 of the 27 main resources it needs for developing the economy, and the import rate of the rest is lower than 50 percent. The degree self-sufficiency in certain resources has dropped. For example, imports of platinum already are more than 50 percent. The United States can completely or mostly supply itself with 10 of the 20 main resources for its industrial development. For the other 10 resources over 50 percent are imported and manganese, chromium, cobalt, and platinum are over 90 percent imported. The lower self-sufficient rate of natural resources is a main weak point of the U.S. economy.

## 2. The United States is stronger than the Soviet Union in contending for and controlling overseas resources.

The contention for natural resources, especially the contention for energy resources and strategic metals, is an important part of Soviet-U.S. contention. Energy resources mainly refer to oil and the so-called "strategic metals" usually refer to 25 metals in four categories: the precious metals (gold, palladium, platinum, and silver), iron and alloy iron ([word indistinct], chromium, manganese, molybdenum, nickel, tungsten, and vanadium), non-iron and rare metals (aluminum, lead, beryllium, copper, germanium, cadmium, magnesium, zinc, titanium, tantalum, and zirconium), and nuclear fuel (uranium, thorium, and plutonium). Strategic metals are of extremely important significance to developing the economy, national defense, and the frontiers of technology of a country.

The contention between the Soviet Union and the United States in Middle East and the Persian Gulf is in reality, and in an economic sense, a contention for oil. In these areas, the main power in various oil-producing countries over the recovery, refinery, transport, and sale of oil are in the hands of U.S. monopoly capital. After the establishment of OPEC, while the oil-producing countries can basically control their own oil resources, they still keep very close relations with U.S. monopoly capital. The production and sale of oil are still basically controlled by the Western oil corporations headed by the "seven sisters." Since the 1950's, the Soviet Union has greatly expanded its force in this region. By means of military and economic aid, it has encroached on the oil resources of this region. In addition to demanding that the recipient countries repay their debts oil, it has also participated in the exploitation of oil in some countries, such as Iraq. Politically, the United States has a closer relationship with most countries in this region, especially with the oil-producing countries. Economically, it has also maintained closer economic relations with this region, especially the oil-producing countries and has a greater influence than the Soviet Union on the production and sale of oil.

The contention between the Soviet Union and the United States for strategic metals is focused in Africa, especially in South Africa. Africa is rich in metallic mineral resources. The United States and other Western countries import 90 percent of the diamonds, 80 percent of the cobalt, 60 percent of the platinum, 60 to 70 percent of the manganese, and 27 percent of the copper from Africa every year. Almost all the uranium exported by Africa is sold to the United States

and other Western countries. The United States and the West are more dependent on the strategic metals of South Africa. Of the eight resources imported by the United States from South Africa, chromium, vanadium, manganese, platinum, and tantalum respectively constitute 91, 57, 90, 35, and 17 percent of their total import values.

In order to control African resources, especially the resources of South Africa, the Soviet Union has accelerated expansion in Africa since the 1970's. It has used Cuba to control Angola and has infiltrated into Mozambique, attempting to strategically encircle South Africa and clutch at the strategic throat of the United States and the West. The Soviet Union has signed many agreements with Angola, Mozambique, and other African countries, according to which the Soviet Union will provide these countries with technology and funds and the latter will repay them in resources.

The main task of the African countries after independence is to carry out economic construction so as to change their backward economic and technical situation. As the Soviet Union does not have a great capacity to provide funds and technology or in economic management, most African countries wish to maintain closer economic relations with the United States and the West. Making use of this, the United States has enhanced its position in Africa through providing loans, technology, joint development, and expanding trade, and has led those countries "taking socialism as their orientation" to break away from the Soviet path.

Apart from Middle East and Africa, the United States has also gained the upper hand in the contention for resources in other parts of the world. For example, it has greater political and economic influence than the Soviet Union in Southeast Asia, which has rich oil, rubber, and tin resources, and Latin America, which has rich oil and nonferrous metal resources.

The vast ocean, which covers 70 percent of the world area, and the bottom of the sea have very rich natural resources. What merits our attention is that the Soviet-U.S. contention for resources is now expanding toward the sea. The Soviet Union has already clearly stated that it "will not stand by with folded arms on the question of using ocean resources." In this respect, by developing its technological superiority the United States has outrun the Soviet Union.

In economic development, a country's own resources are more important than the control of overseas resources. The fact that the United States has gained the upper hand in the contention for overseas resources can certainly offset, to a certain extent, its inferior position in self-sufficiency in natural resources. But compared with the Soviet Union, the latter's natural resources condition is still better. This is a strong point of the Soviet Union in the Soviet-U.S. contention for hegemony.

#### B. The trend of development in natural resources in the Soviet Union and the United States in the mid- and late 1980's.

1. The natural resources of both countries will further decline but the self-sufficient rate of the Soviet Union will continue to be higher than that of the United States.

Although the condition of Soviet natural resources has seriously deteriorated, which is shown by the increase by a big margin in investment and the marked decrease in the growth rate of energy output, it is not as serious as some Western people have estimated. At present, the reserves of various energy resources in the Soviet Union are equal to 660 billion tons of standard fuel, ranking first in the world. Not to mention other resources, reserves of coal and natural gas alone can be exploited for several dozen years or 100 years. The Soviet fuel and power industries have already become a huge complex through the efforts over the past decades. Their fixed assets constitute 35 percent of the total industrial fixed assets, and their staff members and workers, one-third of the total number of staff members and workers. West Siberia has established production facilities capable of producing more than 300 million tons of oil and more than 200 billion cubic meters of natural gas. They will further give play to their roles in the future. These favorable conditions will continue to enable the Soviet Union to supply itself with all or basically all the energy resources it needs. At any rate, the Soviet Union will continue to be more than self-sufficient in this respect in the 1980's.

In the mid- and late 1980's, U.S. self-sufficiency in energy resources is likely to be maintained at the present level, that is, about 90 percent. Since the oil crisis in the 1970's, the United States has achieved a relatively faster increase in coal production and become more than self-sufficient in coal supplies. Its coal output will further increase in the future. Moreover, the United States is advanced in nuclear technology. Its uranium reserves amount to more than one-third of the world's total reserves, and its generated nuclear energy amounts to half of the total nuclear energy in the world and 13 percent of the total generated energy of the United States. From a long-term point of view, nuclear energy will be further developed. With the development of the substitute energy resources and the achievements in the efforts to save energy, U.S. oil imports are unlikely to increase greatly. Rather, it may be possible to reduce them in the course of "lightening" its economic structure.

The conditions for the Soviet exploitation of other natural resources, mainly metal resources, will also further deteriorate. The quality of its mineral products will be further reduced, and the self-sufficient rate of a small number of nonferrous metals will drop. The importing of these resources will thus increase. But it can still be self-sufficient or basically self-sufficient in most of these resources.

The U.S. self-sufficient rate of other resources will continue to drop. As its iron ore reserve is still among the biggest in the world, it can be expected that in the mid- and late 1980's, it will continue to be basically self-sufficient in this respect, as well as in the supply of sylvite and phosphate. The drop in the self-sufficient rate of the United States is mainly expressed by the fact that it is more and more dependent on importing certain nonferrous metals, especially nickel, tin, chromium, cobalt, niobium, titanium, manganese, and platinum.

2. The United States is still stronger than the Soviet Union in their contention for overseas resources.

The Soviet-U.S. contention for resources is mainly carried out in the Third World. In the mid- and late 1980's, as the trend of independence and self-determination continues to develop in the Third World countries, the two countries' ability to influence and control these countries will be weakened. However, generally speaking, the situation is more unfavorable to the Soviet Union, because it will have the greater economic difficulties in the 1980's and both its internal and external affairs are in a stern situation. As the Soviet Union is not powerful enough to offer economic aid to the Third World countries, these countries will certainly maintain closer economic relations with the United States, including exchanging their rich natural resources for U.S. technology, funds, and management knowledge. This means that the United States will have a greater influence on the Third World, including influence and control over natural resources, compared with the Soviet Union.

In the mid- and late 1980's, the Soviet-U.S. contention for resources will further develop and their contention for ocean resources will be aggravated. The technology for exploiting sea-bottom resources is more complex and the costs of this development are higher. The United States is more advanced in this respect and has thus gained the upper hand. It will make use of this strong point in technology and fund and further enhance its superior position in the contention for ocean resources.

### 3. The influence of the new technical revolution on the conditions of the natural resources of both the Soviet Union and the United States.

In the mid- and late 1980's, the development of the new technical revolution, the raising technical level of the national economy, and the "lightening" of the structure of the national economy will exert a great influence on the consumption of natural resources. This influence mainly includes the following:

First, the development of the new technical sectors will "lighten" the economic structure and reduce the consumption of resources.

Second, the application of new technologies in the national economy will reduce some demands for natural resources.

Third, the technical revolution will promote the substitution of new materials for traditional materials and reduce the demands for resources.

As the technical level of the United States is higher than that of the Soviet Union, the development of the new technical revolution and the rising economic technical level will produce greater positive influence on the United States than on the Soviet Union in terms of the consumption of natural resources.

To sum up, by the end of the 1980's, the Soviet Union will still be superior to the United States in the condition of natural resources for economic development. The rich natural resources and high self-sufficient rate are the basic and most important favorable conditions for the Soviet Union. The role of the U.S. superiority in the contention for overseas resources and in technical revolution is limited. Although the exploitation of ocean resources will develop quickly in the future, by the end of the 1980's, the proportion of their output will still be lower. In the near future, the new technical revolution will not result in the greater decrease of the consumption of natural resources. Thus, in the foreseeable future, traditional resources and materials will continue to be the main material resources for economic development.

## VI. External Economic Influence

One aspect of the comparison of the economic strength of the United States and the Soviet Union is their external economic influence. First, the two countries' external political influence is closely related to their external economic influence and the former is based on the latter. And, second, their external economic influence is based on their economic strength. However, their external economic influence is sometimes independent of their economic strength.

The United States has far greater external economic influence than the Soviet Union and the gap between U.S. external economic influence and Soviet external economic influence is wider than that between their economic strength.

A. The most important factor behind U.S. external economic influence being greater than that of the Soviet Union is that the former has a huge amount of overseas investment and many rich multinational corporations.

The rapid growth and development of U.S. overseas investment and its multi-national corporations in the postwar period were an important indicator of the internationalization of capital and production. By the end of 1983, the total value of U.S. overseas investment had reached \$887.5 billion, or, in other words, half of the total value of overseas investment by all capitalist countries. By the end of 1980, the total value of U.S. overseas direct investment had reached \$221.1 billion. As a result of the growth of U.S. overseas investment, the strength of American multinational corporations has grown rapidly. These multinational corporations control many of the economic sectors of the countries in which they are located and rake in exorbitant profits from them.

The American multinational corporations are of crucial importance to the world's economy and is a powerful force behind U.S. external political and economic influence.

With the growth of Soviet economic strength, Soviet multi-national companies have also rapidly developed. At present, the Soviet Union has more than 80 multinational companies in West Europe, North America, and the Asia-Pacific area. These companies are either companies under sole proprietorship, joint ventures, or agents which sell raw materials, fuel, and machinery or operate in the areas of shipping, fishery, banking, credit service, insurance, and leasing and rental services. The extent of the development, quality, and influence of the Soviet multinational companies cannot match that of the American multi-national corporations.

Unlike the United States which uses its huge amount of overseas investment and its multinational corporations, the Soviet Union controls the economies of the CEMA members in varying degrees and influences and controls the development of a few developing countries by means of state action, the imposition of uniformity, planned coordination, an international division of labor, and economic aid. It is principally the economies of those countries "oriented toward socialism" that are under Soviet influence and control.

B. The economic influence of U.S. foreign trade is greater than that of Soviet foreign trade.

Foreign trade is an important channel through which the United States and the Soviet Union exert economic influence on others. U.S. influence is greater than Soviet influence in that:

1. The volume of U.S. foreign trade is greater than that of Soviet foreign trade.

For example, in 1980, the total volume of Soviet foreign trade was \$145 billion, whereas that of the United States was \$472.3 billion. The total volume of U.S. foreign trade is three times that of Soviet foreign trade and is the largest in the world.

2. The mix of U.S. export commodities is superior to that of Soviet export commodities.

The Soviet Union is rather developed economically. However, most of its export products are primary products. Energy resources, fuel, mineral ores, mineral products, and timber account for 60 percent of the total volume of its export. Machinery and means of transport generally account for less than 20 percent of the total volume of its export. In recent years, the figure has dropped to 15 percent. Processed industrial products account for about 80 percent of the total volume of U.S. exports. Of secondary importance are agricultural products. In recent years, agricultural products have accounted for 15 to 17 percent of the total volume of U.S. exports.

The United States is the country exporting the largest quantity of advanced technology to other countries. Knowledge-intensive products account for 50 percent of the total volume of U.S. exports.<sup>57</sup> That means, the United States is exporting more knowledge-intensive products than any other developed countries. The volume of U.S. exports of advanced technology is about half that of the world's. It is principally those traditional products and ordinary technological products such as iron and steel products, automobiles, family electrical appliances, and textile products whose competitive power has declined. U.S. advanced technological products have greater competitive power. In U.S. foreign trade, the export of ordinary industrial products produces trade deficits. However, the export of advanced technological products has unremittingly resulted in trade surpluses in recent years. In 1982, the trade surplus for U.S. advanced technological product exports such as electronic products was \$30.5 billion.<sup>58</sup>

The significance of the fact that the United States is the country exporting the most agricultural products is becoming greater and greater. U.S. exports of agricultural products account for<sup>59</sup> 40 percent of the total volume of the world's export of agricultural products.

Principally by means of exporting advanced technology and agricultural products, the United States exerts political and economic influence on others through its foreign trade.

Of the products exported by the Soviet Union, energy resources, particularly oil, are the most important ones, through which the Soviet Union exerts political and economic influence on others. The Soviet Union sells about 80 million tons of oil to East Europe each year. These 80 million tons of oil are about 80 percent of the total amount of oil consumed by the East European countries. In addition, almost all the natural gas consumed by the East European countries is imported from the Soviet Union. Its control of the supply of energy resources to the East European countries, Cuba, and Vietnam is an important means by which the Soviet Union influences and controls their economies. The Soviet Union obtains currencies mainly by exporting oil and natural gas to West Europe. In this way, it can also exert some political and economic influence on the West European countries.

3. The distribution of the areas trading with the United States is more extensive and balanced than those trading with the Soviet Union.

The trade with CEMA members accounts for about half of the total volume of Soviet foreign trade and its trade with developed capitalist countries accounts for one-third of the total volume of its foreign trade. Of its trade with developed capitalist countries, 80 percent is trade with the West European countries. Its trade with the United States, Japan, Canada, Australia, and New Zealand is quite insignificant. Soviet trade with Third World countries accounts for a little more than 10 percent of the total volume of its foreign trade. A very large part of its trade with Third World countries is that done with India and the countries "oriented toward socialism." The trade between the Soviet Union and the majority of Third World countries, particularly the Southeast Asian and Latin American countries, is very insignificant.

The United States trades with areas distributed more extensively and with greater balance. In addition, it has begun paying attention to the developing countries. In 1980, U.S. trade with the developing countries accounted to 45.4 percent of the total volume of its foreign trade, West Europe accounted for 19.4 percent, Canada accounted for 16.7 percent, and Japan accounted for 11.2 percent.<sup>60</sup>

C. The United States offers more aid to the developing countries than the Soviet Union does.

Aid to other countries is an important means by which the United States and the Soviet Union exert economic influence on others. In addition, they frequently control other countries and meddle with their affairs by offering aid to them.

The United States and the Soviet Union devote far less than 0.7 percent, which is the UN target, of their GNP to aiding other countries. The percentage also falls short of the OECD goal, which is 0.36 to 0.38 percent on the average.

Foreign countries cannot agree on the value of Soviet aid to the developing countries and on what percentage of its GNP this aid constitutes. However, there is not a marked difference between their estimations. According to statistics compiled by the aid committee of OECD not long ago, the aid offered by the Soviet Union and other CEMA countries to the developing countries amounted to 0.17 or 0.18 percent of their GNP. The value of the aid was \$2.9 billion in both 1982 and 1983.

United States' aid to the developing countries generally constituted 0.3 percent of its GNP. In 1982, the figure dropped to 0.27 percent. Last year, it dropped again, to 0.24 percent. Usually, the value of U.S. aid is \$7 billion to \$8 billion. In February of this year, the Reagan administration recommended \$15.8 billion of aid to foreign countries for the 1985 fiscal year. Of this, \$9.4 billion is economic aid.

D. U.S. economic influence of the Soviet Union is greater than Soviet economic influence on the United States.

In comparing Soviet and U.S. external economic influence, an important thing to note is their economic influence on each other. It is obvious that U.S. economic influence on the Soviet Union is greater than Soviet economic influence on the United States.

The United States economically influences the Soviet Union mainly by means of exporting advanced technology and grain. U.S. technology has contributed to the development of the economy and military strength of the Soviet Union. It has always been the case that the Soviet Union develops Soviet-U.S. relations for the purpose of obtaining advanced technology from the United States. Earlier, particularly since the 1970's, by various means, including trade, [words indistinct] other than trade, direct and indirect means, legal and illegal means, and so on, the Soviet Union has tried to obtain various advanced technologies, including the most advanced technologies, ordinary technology, military technology, civil technology, nuclear arms technology, and conventional arms technology. During detente, the Soviet Union more often imports U.S. technology through trade and direct and legal means. However, in times of tension, the Soviet Union imports some but not much, U.S. technology by activities other than trade and other indirect and illegal means. Prolonged Soviet-U.S. tension is unfavorable to the Soviet Union in that the Soviet Union cannot obtain advanced technology from the United States.

Since the Soviet Union is not self-sufficient in grain, it has to import much grain each year. There have been poor harvests and crop failures in recent years. Consequently, the annual volume of grain imports has reached 30 to 40 million tons. A very large part of this is imported from the United States.

The Soviet Union exerts economic influence on the United States mainly by exporting raw materials to the United States. The most important raw materials exported to the United States are some nonferrous metals and those products produced with a very small amount of advanced technology, such as chromium and titanium. However, these products account for a very small part of U.S. imports. In recent years, the Soviet Union has reduced its exports of minerals to the United States. However, this has not affected the United States very much. The United States has imported from the Soviet Union some advanced technology such as continuous steel casting, electroslag hallow ingot mold [dian zha kong xin ding--7193 3257 4500 1800 4299] techniques, and welding facilities. However, Soviet technologies are less important to U.S. economic development than U.S. technologies are to the development of the Soviet Union's economy and military strength.

External economic influence has an important bearing on the state and outcome of and the strategies for the global and local contention between the United States and the Soviet Union. One of the fundamental weaknesses of the Soviet Union in

its expansion and its contention with the United States is that its external economic influence is relatively less significant than that of the United States.

Since the economies of other countries are growing and since they tend to keep their initiative in their own hands and to be more and more independent, Soviet and U.S. external economic influence will become less significant in the future.

By the end of the 1980's, although U.S. overseas investment may grow rather significantly, however, it will account for a smaller percentage of the total value of overseas investment by capitalist countries. The United States will continue to be the country investing the most money in foreign countries and it is unlikely that U.S. overseas investment will account for less than one-third of the total value of the overseas investment by capitalist countries. American multinational corporations will further develop and their economic and technological strength will remain superior to that of the multinational companies of other countries.

It would be difficult for the United States to improve its trade in the late 1980's. However, the United States will still be the country exporting the most agricultural products and advanced technologies. The volume of U.S. agricultural product exports.

It is unlikely that in the late 1980's the United States and the Soviet Union will devote a significantly larger part of their GNP to aiding the developing countries. However, the United States will contribute more than the Soviet Union and it is unlikely that the gap between the aids offered by the two countries to the developing countries will narrow.

The unfolding of a new technological revolution in the United States makes importing advanced technologies from the United States by the Soviet Union more significant for the development of the latter's economy and military technology. In the mid- and late 1980's, the Soviet Union will still have to import grain from the United States. By the end of 1980's, U.S. economic influence on the Soviet Union will be much greater than Soviet economic influence on the United States.

If nothing really important takes place by the end of the 1980's, the Soviet Union will continue to control the economies of the CEMA members and have some influence on them. However, its control and influence will become less significant. Because of its own needs and difficulties, the Soviet Union will not significantly increase its exports of energy resources and it is really remarkable if it can keep the exports of oil from declining. However, in order to earn currencies, the Soviet Union may step up, not reduce, its exports of energy resources to the West European countries. Thus, it is likely that the Soviet Union will supply less energy resources to the East European countries.

The Soviet Union's economic influence on the Third World countries, including those "oriented toward socialism," will further decline.

## VII. Competition in the Domain of Advanced Technologies

The competition in the domain of advanced technologies has a very important bearing on U.S. and Soviet economic and military strength and its importance is becoming greater and greater. In order to achieve and maintain supremacy in this domain, the United States and the Soviet Union are investing more and more material and financial resources and manpower in it.

### A. The present state of the competition between the United States and the Soviet Union in the domain of advanced technologies.

On the whole, the United States is leading in its competition with the Soviet Union in this domain. The United States is superior in many areas. However, in some other areas, it has been overtaken by the Soviet Union.

According to the data released by the U.S. Defense Department, of the 20 years of advanced technologies (mostly related to military affairs) in which there is competition between the United States and the Soviet Union, the United States has superiority in the following 15 areas:

1. Computers and software (U.S. superiority on the rise);
2. Bioengineering (including the study of human factors and genetic engineering) (U.S. superiority not challenged);
3. Automation and artificial intelligence (U.S. superiority not challenged);
4. Telecommunications (including optical-fiber telecommunications) (U.S. superiority not challenged);
5. Signal processing (U.S. superiority not challenged);
6. (?Stealth technology) [jian shao te zheng 8069 1421 3676 1767] (penetration, infiltration) (U.S. superiority not challenged);
7. Reconnaissance submarines (U.S. superiority not challenged);
8. Production/ manufacturing (including automatic control) (U.S. superiority not challenged);
9. Production of microelectronic materials and integrated circuits (U.S. superiority declining);
10. Materials (light, strong, and refractory) (U.S. superiority declining);
11. Optics (U.S. superiority declining);
12. Propulsion (spacecraft, ground vehicles) (U.S. superiority declining);

13. Electro-optical sensors (U.S. superiority declining);
14. Homing and illumination devices (U.S. superiority declining);
15. Radar sensors (U.S. superiority declining); and the United States and the Soviet Union are equally strong in the following five areas:
16. Aerodynamics/fluid dynamics;
17. Conventional missile warheads;
18. Lasers;
19. Nuclear warheads;
20. Dynamics.<sup>61</sup>

These data provide a rough picture of the present state of the competition between the United States and the Soviet Union in the domain of advanced technologies. In addition, in this domain the Soviet Union is leading in the areas of controlled thermal nuclear fusion and the fast neutron reactor.

#### B. Several comments on the competition between the United States and the Soviet Union in the domain of advanced technologies.

First, in the competition between the United States and the Soviet Union in the domain of advanced technologies, it often happens that whenever the United States achieves a breakthrough, the Soviet Union will try to overtake it.

Most of the postwar major technological discoveries have been made by the United States and the Soviet Union has always tried to overtake the United States. Following is a list of the commonly acknowledged major scientific and technological breakthroughs achieved by various countries since the 1950's:

#### Major scientific and technological breakthroughs

Achieved by various countries since the 1950's.<sup>62</sup>

<u>1950's</u>	<u>1960's</u>	<u>1970's</u>
Video-tape recorder (United States)	Laser (United States)	Microprocessor (United States)
Tunnel diode (Japan) (Japan)	Integrated circuits (United States)	Charge coupled device (United States)
Numerical control machine (United States)	Solar energy batteries (United States)	CT scanning (Britain)
Satellite (Soviet Union)	Comsat (United States)	Optical Communications (Many countries are doing research. The United States and Japan are leading)

1950's

Jetliners  
(Britain)

Nuclear power  
(Britain)

Polaroid cameras  
(United States)

Xerox machine  
(United States)

1960's

Tokaido Express Train  
(Japan)

1970's

Production robots  
(Many countries are  
doing research. The  
United States and  
Japan are leading)

From the above list, it can be seen that with the exception of the satellite, all the major scientific and technological discoveries since the 1950's have been made by the United States and the Western countries.

Second, it often happens that whenever the Soviet Union achieves breakthroughs in a few areas, the United States can always overtake the Soviet Union.

Aerospace technology is a classic example. In 1957, the Soviet Union launched its first satellite. The United States was shocked by its success. Thus, the United States roused itself to catch up and succeeded in doing better than the Soviet Union very soon. The United States was the first country to use the satellite in telecommunications and radio and television broadcasting. Now, the United States is superior to the Soviet Union in aerospace technology.

Third, the Soviet Union can make rapid progress in advanced technological research and study. It can even do better than the United States. However, when it comes to application, the Soviet Union is obviously inferior to the United States.

Some of the Soviet Union's advanced technologies, such as aerospace technology and bioengineering, are not inferior to those of the United States. In a few areas, for example, lasers, the Soviet Union has overtaken the United States. However, the Soviet Union's application of advanced technologies in society and the economy is limited and it applies them slowly. The United States applies advanced technologies more extensively and quickly. In addition, the United States is capable of quickly establishing new departments of production with advanced technological achievements.

Fourth, the Soviet Union develops advanced technologies mainly for military purposes. By contrast, the United States can more rapidly adapt the advanced technologies for civil use in addition to giving priority to military purposes.

The major, direct purpose of the Soviet Union's development of advanced technologies is to augment its military strength. The few areas in which the Soviet Union is overtaking, or has overtaken, the United States are those closely related to military affairs, such as conventional and nuclear warhead technology.

The Soviet Union is quite slow in adapting advanced technological achievements for civil use. Although the United States also gives first priority to military consideration in developing advanced technologies, it adapts them for civil use more extensively and quickly. The navigation aids used in the Apollo project are now used in civil aviation. These aids can automatically tell the position, speed, and acceleration of an aircraft and compute the appropriate course to be taken. Their performance is unaffected by weather and radar navigation is no longer a must. The United States has achieved very good economic results by adapting advanced technologies for civil use. Statistics show that for each \$100 NASA invests in research, it can get \$1,400 in return 10 years later.<sup>63</sup> The adaptation of advanced technologies for civil use is one of the factors contributing to U.S. economic and technological progress. The Soviet Union's one-sided development of advanced technologies, which serves the military only, has produced two undesirable results: First, this is unfavorable for the development of technologies with economic value; and second, the huge amount of capital invested in advanced technological research cannot produce the economic results it should produce.

Fifth, the United States has superiority in the most important areas of advanced technologies, whereas the Soviet Union has caught up in those less important areas.

The electronic computer, computer software, bioengineering, automation, automatic control, the building of robots, and optical fiber communications are the most important contemporary advanced technologies. The development of these advanced technologies is bringing changes to people's social and economic lives. Of these technologies, the most important is computer science. "The differences in certain aspects of the computer are an indicator in distinguishing the strongest countries from the less strong ones."<sup>64</sup> It is precisely in these areas of advanced technologies that the United States maintains its superiority, which shows no sign of declining. What warrants our attention is that U.S. superiority in computer technology and software production is still on the rise. Needless to say, this will have significant effects on the competition between the United States and the Soviet Union in the domains of advanced technologies and ordinary technologies.

Sixth, an important characteristic of the competition between the United States and the Soviet Union in the domain of advanced technologies is that the latter is trying to overtake the former with the help of the former's technologies.

In the competition between the United States and the Soviet Union in the domain of advanced technologies, on one hand, the Soviet Union relies on its own research. However, on the other hand, it also imports U.S. advanced technologies by various means. This greatly helps the Soviet Union upgrade its advanced technologies, particularly its military technology, and narrow the gap between itself and the United States. For example, it is said that with the cyber computers and other computer technologies imported by the Soviet Union, the Soviet Union has made its computer technology 10 years more advanced. In addition, the technologies for building wide-body jetliners, which were imported from the United States, helped the Soviet Union manufacture its cruise missiles, which are launched by aircraft.

C. The trend of the development of the competition between the United States and the Soviet Union in the domain of advanced technologies in the mid- and late 1980's.

1. The United States will achieve major breakthroughs in the most important areas of advanced technologies, thus becoming even more superior to the Soviet Union.

The United States is devoting vigorous efforts to building the fifth generation of computers, that is, super king-size computers with "artificial intelligence," and it is very likely that the United States will succeed in building them in the late 1980's. Breakthroughs in bioengineering, the building of robots with artificial intelligence, optical-fiber communication, automatic control, and so on are brewing. By the end of the 1980's, the Soviet Union will probably lag further behind in these areas. This will have an effect on the relative economic and technological strength of the United States and the Soviet Union.

2. Perhaps in a few areas of advanced technologies, mainly the area of nuclear arms technology, neither the United States nor the Soviet Union can have superiority over each other.

Advanced military technology is the area to which the Soviet Union pays the closest attention and devotes the greatest efforts.

Soviet technological progress is mainly in the area of military technology. In order to prevent itself from lagging behind the United States in advanced military technology, the Soviet Union devotes much manpower and enormous financial and material resources to developing military technology. It is estimated that by the end of the 1980's, neither the United States nor the Soviet Union will be able to claim superiority over the other in the areas of warhead technology, propellant technology, and lasers. It should be pointed out that so far the Soviet Union has managed to do as well as, or better than, the United States only in a few areas of military technology. A comprehensive comparison will show that the United States is still superior to the Soviet Union in military technology. It is very likely that the picture will remain unchanged in the late 1980's.

3. In some relatively less important areas of advanced technologies, the gap between the United States and the Soviet Union may narrow.

U.S. superiority in some relatively less important areas of advanced technologies is declining. It is possible that this decline will continue for some time. However, the Soviet Union is merely mastering them and doing research. It still cannot apply them.

Generally speaking, the gap between the United States and the Soviet Union in advanced technologies will probably slightly widen rather than narrow in the late 1980's.

### VIII. Conclusion

The seven factors governing the relative economic strength of the United States and the Soviet Union can be divided roughly into "quantitative" and "qualitative" factors. Quantitative factors mean growth rate, national income, industrial and agricultural output value, output of various products, reserves of various natural resources, total amount of overseas investment, volume of trade, value of aid to foreign countries, and so on, and qualitative factors mean economic and technological levels, economic results, efficiency, the level of advanced technologies, and so on. Economic structure is a quantitative as well as qualitative factor. In comparing the relative economic strength of the United States and the Soviet Union, we should comprehensively compare the qualitative and quantitative factors governing the economies of the two countries. We should not simply compare the quantitative factors and overlook the qualitative factors.

Since the war, the gap between the economic strength of the Soviet Union and that of the United States has narrowed only quantitatively, not qualitatively. As a result of rapid scientific and technological progress and economic development, the qualitative factors governing economic development have become more and more important and more and more significant in comparing relative economic strength. The exhaustion of the resources backing the extensive economic development of the Soviet Union has deprived the Soviet Union of its superiority over the United States in growth rate. Now, the economies of the two countries are growing at a low or moderate rate. Under such circumstances, the qualitative inferiority of the Soviet economy, that means, its low economic and technological level, slow technological progress, and poor economic results, has become very conspicuous. The Soviet Union has now become aware of the significance of technology, results, efficiency, and other qualitative factors governing economic development in its competition with the United States in the economic field. Soviet periodicals suggest that by now, the competition between the Soviet Union and the United States in the economic field has entered its "third historical stage." In this stage, competition should extend beyond growth rate and quantity and developing productive forces with the help of scientific and technological achievements and improving production efficiency and quality of work should become the "major battlefield" for the competition between the Soviet Union and the United States.<sup>65</sup> In the competition between the United States and the Soviet Union, the two countries now give "first priority" to the question of scientific and technological progress.<sup>66</sup>

From what has been discussed, two basic conclusions can be drawn:

First, since the Soviet Union is inferior to the United States in technological level, economic results, efficiency, and advanced technologies and since its economy is in disarray, one can easily see an obvious discrepancy between the Soviet Union's actual economic strength and that depicted by the statistics published by itself. Compared with that of the United States, the economic strength of the Soviet Union is not as weak as that depicted by Western statistics. However, it is definitely not as great as the Soviet Union says it is.

Second, in the mid- and late 1980's, the competition between the United States and the Soviet Union in the economic field will be focused on raising economic and technological levels, improving economic results and efficiency, reforming economic structure, speeding up technological progress, and so on. It is unlikely that the gap between the economic strength of the Soviet Union and that of the United States will narrow. Possibly it will slightly widen.

#### FOOTNOTES

1. "The President's Economic Report," 1982; "A New Picture of the Soviet Economy," compiled by the Joint Economic Committee of the U.S. Congress, published by the Chinese Financial and Economic Publishing House, 1979, p 5.
2. Supplementary issue of the "Soviet and East European Question," No 1.
3. Based on the figures provided by the "OECD Department of Economic Statistics," May 1984, p 182.
4. INTERNATIONAL HERALD TRIBUNE (U.S.A.), 3 February 1984.
5. "Special Data on International Problems," No 101, 1980.
6. Ibid.
7. EVENING GAZETTE (West Berlin), 22 July 1980, quoted from "On the Soviet Economy—The Management System and Main Policies" by the Liaoning People's Publishing House, 1982, p 325.
8. "Economic Problems," (The USSR) No 10, 1983, p 31.
9. "Problems in the Soviet Economic System," the Shishi Publishing House, 1981, p 38.
10. This figure of 63 percent is based on the following calculation: Soviet industrial output value is 80 percent of that of the United States; Soviet machinery industrial output value constitutes 27.8 percent of the industrial output value, while that of the United States constitutes 35.5 percent of its industrial output value.
11. FINANCIAL TIMES, (Britain), 23 November 1977.
12. "A New Picture of the Soviet Economy," Book 2, p 301.
13. Ibid.
14. "Economic Problems," (USSR), No 2, p 19.
15. "Soviet Finance," (USSR), No 2, 1977.
16. "A New Picture of the Soviet Economy," (United States) Book 2, p 300.

17. "The Proportion of Reproduction During the Socialist Period," compiled by A. N. Nutejin [6179 3676 6855], 1982, Chinese Edition, p 111.
18. Ibid.
19. "On the Soviet Economy--The Management System and Main Policies," p 392.
20. YEAR BOOK OF WORLD ECONOMY, 1982, p 693.
21. LIAOWANG, No 9, 1983, p 37.
22. RENMIN RIBAO, 24 June 1984.
23. LIAOWANG, No 9, 1984, p 37.
24. LIAOWANG, No 9, 1983, p 37.
25. "Prospects of World Economy in the 1980's," The Zhanwang Publishing House, 1983, p 206: "Investigation and Study of the Soviet Union," No 22, 1979.
26. THE UNITED STATES, (USSR), No 5, 1978, "The Contest Between Two Systems: Illusions and Facts.
27. Ibid.
28. "On the Soviet Economy--The Management and Main Policies," p 406.
29. Based on Soviet official statistical figures.
30. "On the Soviet Economy--The Management System and Main Policies," p 257.
31. "The Question of Invention," (USSR), No 1, 1983.
32. "Economic Problems," (USSR), No 10, 1982, p 30; "Problems in the Soviet Economic System," p 249.
33. "Economic Problems," No 10, 1982, p 33.
34. "A New Picture of the Soviet Economy," Chinese Edition, Vol 2, pp 529-530.
35. "Comments," (Britain), No 14, 1981.
36. "The Planned Economy," (USSR), No 2, 1979.
37. "On the Soviet Economy--The Management System and Main Policies," p 405.
38. "World Economy," No 5, 1980.
39. (NUOQIEFUJINNA) [6179 0434 1133 6855 1226], (USSR): "Intension of Production and Economic Structure of the Capitalist Countries," Russian Edition, 1982, p 227.

40. "Concise Edition of World Economic Statistics," 1982, p 136.
41. Ibid, p 121.
42. "The Planned Economy," (USSR), No 1, 1984, p 110.
43. Ibid.
44. WORLD ECONOMIC YEAR BOOK, 1981.
45. "The Planned Economy," (USSR), No 1, 1981, p 110.
46. YEAR BOOK OF NATIONAL ECONOMIC ACCOUNTING STATISTICS, (The United Nations) Vol 1, 1977.
47. CONCISE EDITION OF WORLD ECONOMIC STATISTICS, p 394.
48. WORLD ECONOMY, No 3, 1981, p 66.
49. CONCISE EDITION OF WORLD ECONOMIC STATISTICS, P 204.
50. CONCISE EDITION OF WORLD ECONOMIC STATISTICS, p 216.
51. Ibid., p 214.  
"A Collection of Essays on the Prospects of Soviet Economic Development in the 1980's," p 134.
53. LIAOWANG, No 9, 1983, p 36.
54. SHIJIE JINGJI, No 3, 1984, p 53.
55. "Soviet and East European Question," No 1, 1984.
56. Ibid.
57. WORLD ECONOMY AND INTERNATIONAL RELATIONS, (USSR) No 1, 1984, p 47.
58. LIAOWANG, No 9, 1983, p 35.
59. WORLD ECONOMY AND INTERNATIONAL RELATIONS (USSR) No 1, p 47.
60. RENMIN RIBAO, 4 July 1984.
61. CHRISTIAN SCIENCE MONITOR, (U.S.) 9 March 1984.
62. MASANORI MORITANI: "Japan's Technological Power," p 179. The sentence "The United States and Japan Are Leading" in the brackets following "Optical Communications" and "Production Robots" are added by the author of this article)
63. JINGJI RIBAO, 27 June 1984.

64. NEWSWEEK, (U.S.) 4 July 1983.
65. ECONOMIC PROBLEMS, (USSR) No 11, 1977.
66. INTERNATIONAL LIFE, (USSR) No 12, 1976.

CSO: 4006/244

## CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

### WESTERN EUROPEAN ECONOMY RECOVERS IN 1984

OW220733 Beijing XINHUA in English 0648 GMT 22 Dec 84

[Report by Li Changjiu and Li Shuxun]

[Text] Beijing, 22 Dec (XINHUA)--The economy of the 10 European Economic Community (EEC) countries grows by an average of 2.2 percent this year, following a bare 0.8 percent increase last year and falling far behind the United States and Japan which are expected to register a 5-percent growth or more, according to figures released by EEC.

Prospects for 1985 do not look as sanguine as is wished to be and the economy is expected to flounder along at a low growth rate, economists say.

This sluggish recovery is mainly due to the belated development of high technology in Europe. Since the mid-1970's, the United States and Japan have redirected their resources to the development of new technology and industries, while western Europe failed to act in good time—a misstep in development strategy which leaves it behind in the race spearheaded by microelectronics.

The Swiss newspaper LA TRIBUNE DE GENEVE, recalled that in 1972, Federal Germany, Britain, France and Switzerland accounted for 54.7 percent of the world's sophisticated product exports, while the figures for the United States and Japan were 32.2 percent and 13 percent, respectively. A decade later, the share of the four West European countries fell to 38 percent, while those of the United States and Japan rose to 37 percent and 25 percent.

In the trade of computers and related products, western Europe netted a surplus of US\$500 million in 1978, but in the first half of the 1980's, this surplus turned into a deficit which is estimated to reach 20 billion dollars this year. At present, 80 percent of the home-use computers and 90 percent of the video recorders sold on West European markets come from the United States and Japan.

Hesitant growth in western Europe is accompanied by continued swelling of the ranks of the unemployed from 5.5 percent in 1979 to an estimated 11 percent or 13 million this year. This makes the shift from the conventional industries to high-tech and new-type industries all the more difficult. A case in point is

the closing of coal mines and steel mills and other inefficient and unprofitable enterprises in some west European countries which has met with vehement opposition from workers, often in the form of strikes. Severe unemployment also gives rise to social problems that in turn arrest economic growth and fuel unrest.

For years, heavy government spending in west European countries has hindered investment. Statistics show that in 1982, government expenditures of EEC countries ate up 47.3 percent of their GDP as against the United States' 36.3 percent and Japan's 27.3 percent.

Excessive government spending means heavy taxation which adds to the burden on business and causes prices to go up and makes products less competitive and profits scantier. This lack of incentive to investment at home plus America's high interest rate has resulted in a transatlantic flow of European capital. According to statistics, from 1982 to 1984, a total of 200 billion dollars has found its way to the United States.

British Foreign Secretary Geoffrey Howe spoke out this month against the U.S. policy which, he said, has landed Western Europe in an economic plight. Feeling the pinch of U.S. high interest rates, Western Europe has been pressing Washington for a change in its policy, but to little avail.

Previously strong in science and technology, European countries have now awakened to the crying need for greater collaboration among themselves and have begun to pool their resources in a bid to catch up in new technology.

But it will take a great deal of time for Western Europe to overcome its internal difficulties and achieve the needed cooperation. Until it has done so, marked economic upturn can hardly be envisaged. On the other hand, a slow-down in U.S. economy and the financial crunch gripping most Third World countries may well upset its feeble recovery.

Official EEC forecast put the community's growth rate next year at 2.3 percent, up only 0.1 percent from this year's. Some economists even fear that should the U.S. economy founders [as printed] again next year or the year after, it could spell doom for a full European recovery.

CSO: 4020/69

## Export Industries

AUTHOR: WU Tongming [0702 3057 6900]

ORG: Department of Geography, Zhongshan University

TITLE: "Developing Guangzhou's Industry by Relying on Foreign Trade and Strengthening the Industrial Network"

SOURCE: Guangzhou REDAI DILI [TROPICAL GEOGRAPHY] in Chinese No 3, 1984  
pp 177-182

ABSTRACT: Progress in industries oriented toward foreign trade depends on becoming free from red tape; introducing necessary capital, raw materials and technology from abroad; and sending more industrial products into the international market. As an economic center, Guangzhou mainly relies on the exchange and export of industrial raw materials, and semi-finished and finished products; this is in the realm of commerce and trade. The well-developed light industry and Guangzhou's proximity to Hong Kong and Macao provide two outstanding conditions for the city's economic prospects. Of the 6 million residents in Hong Kong and Macao, 90 percent are from Guangdong Province; these market and kinship ties further help Guangzhou's strategic location.

As for the industrial network one of the desirable examples is the supply of steam from the Xicun Power Plant to its neighboring factories. Thus, capital outlays are reduced and thermal efficiency is increased. Concerning the overly high percentage of industries that are concentrated in the city proper, causing pollution and traffic jams, the problem can be relieved by constructing industrial buildings (as in Hong Kong) for small enterprises and by dispersing other larger factories to the suburbs. The traditional regional division of labor between Guangzhou and the Pearl River delta can be further subdivided, for an enhanced industrial network. The city's hinterland including Guangdong, Hunan, Guangxi and Guizhou can spur more growth for the material base of a larger area. Especially in crossing the international boundary, Guangdong Province's forthcoming investment in the Solomon Islands in timber cutting leads to even larger benefits in obtaining these resources, which are in short supply in China. Finally, setting up liaison agencies to solve problems in supplies, production and sales is a mandatory approach in harmonizing industrial development.

10424

CSO: 4011/2

HONG KONG MEDIA ON CHINA

DISCOVERY OF GUANGDONG'S LARGEST GOLD DEPOSIT

Hong Kong WEN WEI PO in Chinese 14 Sep 84 p 1

[Article: "Discovery of Large Gold Ore Deposit in Gaoyao, With a Gold Content of Over 10 Grams Per Ton"]

[Text] Geological personnel of Guangdong Province after a year of prospecting discovered for the first time in the Hetai Prefecture of Gaoyao County a Kata-rock type gold deposit. The prospective reserves are on the scale of a large gold deposit.

Hetai Prefecture is located northwest of Zhaoqing. In the sixties a gold heavy-sand anomaly was discovered there and in the early eighties it was designated as a prospective area for gold deposits.

Information already obtained verifies that the Hetai gold deposit is located in an area having compound structural zone conditions extremely favorable for mineralization. Seven gold veins have been discovered having a length of 100 to 600 meters, a width of 0.6 to 2.5 meters and containing approximately 10 grams of gold per ton. This is the richest and largest gold deposit discovered so far in Guangdong Province. The major find there is the No 11 vein of the Gaocun deposit, which already commands a length of 550 meters, is 3 meters wide, contains nearly 13 grams of gold per ton and is estimated to have gold reserves of 6 tons.

12704  
CSO: 4006/7-A

END

**END OF**

**FICHE**

**DATE FILMED**

5 Feb 1985